RETAIL STORE MANAGEMENT PROBLEMS

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Retail Store Management Problems

By

Donald Kirk David, M.B.A.

ASSISTANT PROFESSOR OF MARKETING
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
HARVARD UNIVERSITY

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PREFACE

THIS book is a collection of actual executive problems which have been gathered from stores located in many parts of the country. It attempts to present, in a coordinated manner, problems which face executives of retail stores of various sizes and types.

While the search for these problems was undertaken primarily to strengthen the material available for teaching purposes in the course in Retail Store Management at the Harvard Graduate School of Business Administration, I hope that the book will be of value to those actively engaged in retailing, both in training executives within the store and in suggesting other ways and new methods of handling some of their retail management problems. It is gratifying to those of us who believe in the problem method of teaching, to know that executives are finding means of using these problems to advantage within their own organizations.

I believe that the collection of problems will furnish a sufficient background upon which courses in Retail Store Management can be built in other educational institutions. The probable reason why there have been so few courses of this kind given, is the fact that nowhere has there been an available collection of material sufficient to cover the subject in an adequate manner.

Executive problems are much the same in whatever types of business they may arise. The details of the problems, of course, differ, but the same methods of analysis and processes of sorting material are necessary whether the problem is confronting executives of a retail store or a large daily newspaper. The technical details are important, and it is our belief that they can best be presented by including them in the background of problems to be solved. For this reason some of the problems in this book may seem to be unnecessarily long, but an attempt has been made to give the whole setting of a particular situation.

Since, in preparing men for executive positions in business, it is necessary to train them to think as an executive must think, the problems are presented as they came to the executives of stores. They are actual executive problems as we have been able to find them, with a few facts changed to cover up the identity of the particular store. Incidentally they are problems which the retailers are most interested in solving.

From the experience of the members of the staff of the Harvard Graduate School of Business Administration, the advantages of the case method of teaching are unquestionable. The course in Retail Store Management has been developed from a lecture system to a discussion basis and from there to a straight case system. The necessary detailed background and the general principles of retailing are more thoroughly covered by presenting them in the body of the cases than by the lecture or text-book method. Class interest is more easily maintained when the members of the class visualize the problem as their problem and have the opportunity of discussing what should be done under particular circumstances, rather than when the instructor alone expresses his views. There is usually more than one way to solve a business problem and a proper discussion should determine a satisfactory conclusion.

The case method of instruction, as it is developed in the teaching of business subjects, is due in large part to the efforts of Dean Wallace B. Donham of the Harvard Graduate School of Business Administration, and the interested reader is referred to an article in the *Harvard Graduates' Magazine* of March, 1921, in which Dean Donham sets forth the advantages of this method of teaching as he sees them. It was Dean Donham's enthusiasm for, and his whole-hearted belief in, the case method of teaching business that encouraged me to undertake this work. I have a deep feeling of appreciation for the advice, the suggestions and the aid he has given me.

Gifts from stores and store executives made it possible to develop an organization in the Harvard Bureau of Business Research, under Professor Melvin T. Copeland, for the collection of problems in this field. To Professor Copeland I owe a great debt. Without his help, advice, constructive criticism, and direction, it is doubtful whether the work necessary for the completion of this book would have been accomplished. This book

and the course in Retail Store Management at Harvard have been greatly improved because of his aid.

Mr. Malcolm P. McNair, Mr. C. E. Frazier, Mr. C. N. Schmalz and Mr. R. N. Winternitz, field agents for the Bureau of Business Research, have collected a majority of the problems which appear in this book. Their advice on disputed points, their interest in and analysis of the aim to be attained, and their cooperative attitude are much appreciated.

To Miss Mary E. Osgood, Secretary of the Bureau of Business Research, and to Miss Ethel M. Brainerd, my secretary, I wish to express my gratitude. They have gone over the outlines of the problems, the manuscript and the final proof, have made valuable suggestions and at all times have been most willing and helpful.

I am grateful to the executives in many stores from whom the problems were collected. Without their active assistance and complete willingness to disclose confidential information, the problems could not have been made practical or correct in detail. Were it not for the fact that a list of the names of the firms might disclose the identity of some of the problems, I should have included in this preface the names of the 126 stores to whom I am so indebted.

D. K. D.

Cambridge, October 24, 1921

AN APPRECIATION

THE research upon which the problems in this book are based was made possible by the financial assistance, the interest, and the active cooperation of a number of retail stores and their executives.

I am deeply indebted to the following Boston merchants who underwrote a fund so that we might start an organization at the time when a collection of problems was first planned:

Mr. A. Lincoln Filene, of Wm. Filene Sons Company
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E. T. Slattery Company	Boston, Mass.
Conrad & Company	Boston, Mass.
R. H. Macy & Company	New York City
The Bailey Company	Cleveland, Ohio
L. Bamberger & Company	Newark, N. J.
Boston Store	Chicago, Ill.
Burgess-Nash Company	Omaha, Neb.

Crowley-Milner Company	Detroit, Mich.
L. S. Donaldson Company	Minneapolis, Minn.
The Emporium	San Francisco, Cal.
The Fair	Chicago, Ill.
Forbes & Wallace	Springfield, Mass.
Gladding Dry Goods Company	Providence, R. I.
William H. Hager	Lancaster, Pa.
Hale Bros., Inc.	San Francisco, Cal.
Henderson-Hoyt Co.	Oshkosh, Wis.
Herzfeld-Phillipson Company	Milwaukee, Wis.
Hochschild, Kohn & Company	Baltimore, Md.
The Howland Dry Goods Company	Bridgeport, Conn.
J. L. Hudson Company	Detroit, Mich.
S. Kann Sons Company	Washington, D. C.
Mandel Brothers	Chicago, Ill.
LaSalle & Koch Co.	Toledo, Ohio
Meier & Frank Company	Portland, Oregon
Rike-Kumler Company	Dayton, Ohio
Rothschild & Co.	Chicago, Ill.
Scruggs-Vandervoot-Barney Co.	St. Louis, Mo.
Weinstock, Lubin & Co.	Sacramento, Cal.
Younker Bros.	New York City

D. K. D.

Cambridge, October 24, 1921

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PART I

THE FIELD OF RETAILING

PART I

THE FIELD OF RETAILING

A. The Position of Retailing in the Field of Marketing

MARKETING has been defined as a study of the principles that govern the policies of business management in the distribution of commodities from purchasers to consumers. This includes the activities of retail and wholesale merchants, manufacturers' sale organizations, the various agencies engaged in the distribution of raw materials, and all other means of facilitating and promoting the sale of merchandise.*

This book takes up that part of marketing which has to do with the activities of retail merchants. Retail operations may be defined as those which aid in the transfer of goods between the producer and the consumer, whose main functions have to do with selling, by means of direct contact, to the final consumer. The personal contact which the retailer has with the final consumer can be used as a guide to classify retail activities.

From an economic point of view the retailer is in business to make a profit or a saving.** He is justified in this profit because he produces time and place utilities and undertakes a risk. His position is sound, for in most cases he is a necessary adjunct to the most convenient and most economical method of distribution of commodities. Despite the greater standardization of goods produced, no means has yet been devised to displace entirely the personal contact necessary for the distribution of the goods.

The public feels that there are wastes in the distributive processes, without knowing where or how they occur. But when one realizes that in many cases over 50% of the selling price to the consumer represents the cost of marketing particular products,

*M. T. Copeland, *Marketing Problems,* page 1.
**Cooperative Retailing.*

it is no wonder that the buying public questions the soundness of present-day marketing methods.

Exactly what percentage of waste is caused by the retailing process is difficult to determine. Various investigations of the Harvard Bureau of Business Research in particular retailing fields, and of other research bodies, stress the point that there are wastes in the operating expenses of these retail institutions. In fact, it is toward an elimination of these wastes that the best minds in the retailing field are turning, but in this respect, retailing is 15 to 20 years behind production As far back as 1900, Mr. Frederick W. Taylor, Mr. Carl Barth, Mr. Gantt, and their associates, were applying scientific methods to production, in order to eliminate waste.

One of the great opportunities at the present time in retailing, or in fact the field of marketing, lies in the systematic study of the expenses of distribution. Such organizations as the Controllers' Congress of the National Retail Dry Goods Association, the various independent research groups, and the Harvard Bureau of Business Research, have done much and will do more to lead the way toward intelligent saving in the process of retailing.

B. Problems of Different Types of Retail Stores*

Not many years ago, general stores and the smaller unit stores were the only types of retail institutions. As the population grew, the general stores expanded into department stores. The metropolitan specialty shop came as an outgrowth of the unit store idea, based upon an organization similar to that of department stores. Chain stores have developed in the last few years and form the most startling growth in retail distribution. Manufacturers' retail branches, cooperative stores, mail order retailing, retail public markets, and itinerant retailers or wagon retailers, have been outgrowths from the other types.

Each of these types of stores has problems that are peculiar to itself. One may think of two sets of lines, one set running horizontally and the other vertically, the vertical lines representing problems of the different types of stores—for example, the problems of the department store as contrasted with those of a

*For another summary of the problems of different types of stores, see Copeland, *Marketing Methods,* pages 6–13. That book approaches these problems from the point of view of a distributor who uses retail stores as an outlet for his product.

chain system—and the horizontal lines representing those internal problems, such as accounting methods, organization, merchandise and other problems, with which every store, no matter what type, has to contend. It is with the horizontal lines that the problems in this book deal, but a clear understanding of these so-called horizontal problems cannot be had unless the special problems of each type of store are made clear.

1. Unit Stores

Unit stores are those which are owned, organized and operated as an independent unit, without elaborate departmental organization, for the sale of commodities. The majority of general merchandise, grocery, shoe, drug, hardware, jewelry, and millinery stores are in this group. The main problems of the unit stores are those dealing with intelligent competition, which problems can be subdivided, on a horizontal basis, into selling problems, accounting problems, and buying and stock-keeping problems.

A surprisingly small percentage of the unit stores in the country have an adequate cost or accounting system. They have no means of knowing, first, what their costs are, and, second, how to decrease the wastes shown by costs. The larger institutions with whom unit stores compete, because of the greater capital can purchase in larger lots and are able to secure quantity discounts from the manufacturers or wholesalers.

It is a query in the mind of students in marketing whether or not the unit retailer can survive. Each unit store must solve the questions of how it can meet the selling methods of the larger institutions, how it can secure accurate costs, and how it can meet the lower prices of competitors through better buying methods. The chief advantage of the unit store is the personal contact which it is able to maintain with a small group of customers. This makes possible intelligent service applied to the particular needs of individual customers. However, those unit retailers who refuse to see the problems of better cost keeping, better selling, better buying and stockkeeping methods, will probably not be able to meet the competition of other types, and as a result be forced out of business. On the other hand, those unit retailers who recognize these problems, who are willing to learn methods from outside sources and are awake to

other natural advantages accruing to them, will undoubtedly find a place in the process of distribution and will grow. The intelligent unit retailer probably cannot be displaced.

2. Department Stores

A department store is a retail institution organized on a departmental basis, in which one of the major departments is dry goods.* Department stores have grown and prospered because of the shopping convenience offered by a collection of many units under one roof, and because of their large buying power, their financial and credit standing, and the large and able organization of executives which they are able to afford. They are in a position to take every advantage accruing to large-scale operation and operate with a detailed commercial division of labor.

Until recently, department stores have had to think very little of how much it costs to operate their businesses. The discounts which they could demand in purchasing merchandise allowed them to sell at a lower price than their smaller competitors, even if their expenses were high. However, today, the active competition which has grown in the department store field is forcing these stores to consider wherein they can eliminate some of the unnecessary expenses. As it is, the extensive services and elaborate organization common to department stores have increased their expense ratio to a point beyond that of the smaller stores.

Again, because of their size, the department stores have found it very difficult, and in most cases impossible, to give individual service to customers. There is little chance in the department-store field for the competition of personalities. A smaller business is more flexible and less apt to become hardened.

In some districts the department stores will soon meet the point of saturation, for their needs have grown faster than the needs of the public. This fact has resulted already in a stage of specialization, as can be seen by the large development of metropolitan specialty stores throughout the country. It has been predicted by some that the department stores, as such, cannot meet this advantage of the specialty stores, that the specialty

*Copeland, *Marketing Problems*, page 8.

stores will secure the top and middle of the trade, and that the department stores must compete in lower-priced merchandise.

Another problem facing department stores is that the originators and heads of the older institutions are withdrawing from the business. It is a question whether, under present methods, they can maintain a personnel able to fight the changes and competition that are coming. In attempting to solve this problem many of the larger department stores are spending a great deal of time and money in training future executives of their institutions.

Department stores, as such, will probably continue, but to do so in competition with other types of retail institutions they must make the best of the numerous advantages which they have and be willing to learn from other types of stores.

3. Chain Stores

A chain-store system is a group of scattered stores with a single ownership and centralized management.* Those types of goods which combine possibilities for saving through mass buying by the retailer with the advantage of easy access by the consumer are the lines in which chains have been most successful.

Today there is hardly a city in this country that does not have at least one store which is a member of a chain of stores. With only a few exceptions the growth of the chain-store systems has been from a small beginning. This is probably because of the need of a great amount of capital to start a going chain system and also because of the difficulty of forecasting what the future is to be in any particular field.

The chain stores are beset with many important problems. Chief among these are, securing managers for their stores who will take a personal interest in the success of the company, the personal relationship with customers and the service extended to customers, the difficulty of policing and protecting the interests of the owners, and the limitation of size where ability of the organization to expand up to but not beyond a certain point is set by physical and financial reasons.

The selling policy of chain stores at the present time seems to be comparatively simple. True enough, an attempt is made to sell

*M. T. Copeland, *Marketing Problems*, page 8.

all the goods possible, but to do it on a standardized program. Competition, however, between different chains in the same field, is bound to bring forth the need of better selling methods.

In an editorial, appearing in the *Boston Herald* on September 18, 1921, comments were made upon the growth of chain stores in the metropolitan Boston district. It says in part:

> The advantages of the plan are easy to see; uniform direction, quantity buying, quick turnover, standardizing in advertising and in store layouts, ease in the transfer of surplus stocks and the like. There are disadvantages also. An owner always watches minutely his own shop, a manager is not always so watchful. A part of the population is likely to discern, rightly or wrongly, more of a personal element in their contact with an owner's store. Small chains of but two to six or eight units are popular, as tending to combine the advantages of both systems.

In a humorous vein this editorial goes on to say that:

> One chain requires a cat in every shop. When a manager loses his cat he telephones the district supervisor and gets another on short notice. The animal's board goes on the books at 25 cents a week, but he has to his credit a larger average in the savings he effects by warring on rats and mice. He is an investment and has to earn his way. Every cat the company owns has an individual record and the summit achievement is that of a cat that disposed of seven rats in a single night. Such is modern merchandising.

And so it is with chain-store operations. How soon the limit of standardization will be reached, or whether it is yet in sight is a disputed point. It is enough to know, however, that chains are developing very rapidly and probably will continue to do so as long as they have operating advantages over other types of stores.

4. Other Types of Stores

A. Metropolitan Specialty Stores

Metropolitan specialty stores are an outgrowth of unit stores and have usually assumed a departmental organization. The problems of an individual specialty store depend for the most part upon its size, for if the store is small it is faced with the same problems which bother the unit retailers, and as its size increases it must solve the problems of the department store. The specialty stores have taken advantage of personal service

and specialization which they can offer and which the department store finds it very difficult to give.

B. Cooperative Retailing

A cooperative store has many theoretical advantages over other types of stores, in that it offers possibilities of cheaper administration, smaller advertising expense, occupation of cheaper locations with a corresponding reduction in rent, and the interest of a group of customers in its welfare. A true cooperative store is one that is owned and managed by the consumers, such as is the case with those operating under the Rochdale plan. Their development, particularly in England, should at least raise a question in the minds of students of marketing why they have not been as successful in the United States. One answer is that here there are few class markets where the ties are strong enough to encourage those within a class to buy at a particular store unless that store meets the prices and competition of any other store. Cooperative stores are at a disadvantage in not being able, usually, to get efficient managers from their own group of customers. Further difficulties with a cooperative plan are: first, that the American public has become accustomed to many services and for the most part is not willing to trade without them; and, second, previous lack of success of cooperative plans has made it difficult to obtain satisfactory credit arrangements.

Although several labor unions have developed cooperative stores which have operated successfully, and the farmers' unions in the West and Middle West have in some cases been able to meet the competition of other types of retailing, it is doubtful whether the cooperative store will ever be an important factor in retail distribution in this country.

C. Manufacturers' Retail Branches

In recent years, several manufacturers have entered into the field of distributing the product of the consumer as well as producing it for sale, and in so doing have attempted to carry the title to the goods from the time they are produced until they are sold to the final consumer. The obvious advantages to manufacturers are that they are able to feel the effects of

style changes quickly, can push particular types of products, and can protect themselves against the indifferent attitude of retailers. They feel that they can operate with a smaller amount of stock and can in the long run eliminate some of the waste, not only of output, but of distribution. Manufacturers' retail branches, however, have not been able to operate their stores more economically than the majority of unit stores or department stores have been operated. On the other hand, unless the retail branches are able to maintain a retail organization complete in itself, it is doubtful whether they can operate on as small a ratio as other stores. The striking disadvantage of manufacturers' retail branches is that they are for the most part limited to the stock of a particular manufacturer and cannot take advantage of job lots and bargain-price merchandise from other sources.

D. Other Types

The problems of mail order houses, public markets, wagon retailers, and other types of retail selling, are not considered in this book. The mail order house clearly offers a separate type of problems because of the lack of over-the-counter contact with the public. Mail order houses stand at a great disadvantage in a rising or falling market because of the necessity of publishing prices on the goods before they are sold.

Possibly a lesson can be learned from one type of wagon retailing, the fruit peddler, that could be applied to other types of retail stores. The fruit peddler buys his stock in the morning and has sold it by night, and by so doing turns his stock in one day. If every type of retail store could do this there would be a great saving made in the expense of retailing.

C. Problems of Retailing from the Executives' Point of View

A discussion of the problems of different types of stores shows, in practically every case, that their solution must rest on a consideration of the more fundamental internal executive problems. The internal executive problems which affect every type of store are the ones with which this book deals. They have been classified as follows:

Accounting Problems	Selling Problems
Statistical Problems	Stock Problems
Organization Problems	Buying Problems
Merchandise Problems	General Administrative Problems

The difficulty of any classification of retail problems is that at best it must be an arbitrary one. No doubt these same problems could be divided satisfactorily on an entirely different basis. The starting point in any classification, however, should be a division into merchandise and non-merchandise problems. The Accounting, Statistics, Organization and General Administrative sections deal with non-merchandise functions of the store; the Merchandise, Selling, Stock and Buying divisions have to do with the merchandise functions.

A retail store operates to make a profit. Ascertaining whether or not the store has made a profit, and the means of controlling profits, are questions of general importance to a going business. The Harvard Bureau of Business Research, in its investigation of accounting systems for various types of unit stores, has found that a small percentage of the unit retailers of the country have adequate method of accounting.

In a consideration of accounting problems, attention should be given first to an analysis of a profit and loss statement, and to methods of figuring gross and net profit, total expense figures and rate of stockturn. Recently, much thought has been given to a classification of accounts into definite standardized systems for each type of store. The work done by the Harvard Bureau of Business Research and the Controllers' Congress of the National Retail Dry Goods Association has been an outstanding feature in this classification program. Comparable figures over a period of years within the store itself, or with figures of other stores, cannot be had unless a classification is made of the accounts. Many stores do not attempt to distribute the operating expenses to any departments within the store, and some even feel that there is no need of departmentalization. Correct accounting procedure demands that where there are departments a standard method should be arrived at for a fair distribution of these items to the individual departments.

Many retailers, particularly in the department-store field, have found it to their advantage to take their inventory at the

retail figure only, and to compute their cost inventory by keeping a record of mark-ups and mark-downs on all purchases during the period. This method is generally referred to as the retail method of inventory, and brings with it many difficult accounting problems. The rapid growth of the use of this method in stores (made possible by a ruling of the Internal Revenue Department allowing this procedure) has brought several new problems in its application. Taken as a whole, the use of the retail method of inventory is one of the most advanced steps that has been taken in retail methods within the last few years, and the possibilities of its use are only suggested by what it has accomplished so far.

The problems of the use of statistics in retailing are closely related to those in accounting because they likewise have to do with securing better control. Little thought has been given to statistical problems, as such, until recently, and then only in the larger and more progressive stores. It is interesting to note, however, that today retailers generally are coming to recognize the great importance of complete control and are using statistics to some extent to guide them and to gain this control.

Statistical problems, as they affect retailing, divide themselves into four groups: first, those which have to do with statistical methods in retailing; second, general operating statistics, or those which deal with the general operating of the store; third, methods of presentation of statistical information to the chief executives of a concern and to subordinates; fourth, the organization of a statistical department and how one might undertake the organization of such a department in his own store.

Statistical methods in retailing raise the questions, of how data can be obtained; what basis of selection can be used in getting at important facts; and what relation these facts have to the operation of the store? This book has established the following classification of statistical methods:

Selling statistics	Buying statistics
Stock statistics	Personnel statistics

Probably every retailer keeps account of the yearly sales for every salesperson. Very few retailers, however, use this information to advantage in eliminating sales peaks and in sales-promotion work. Data concerning facts outside of the business, such as

weather statistics, conditions in competing stores, and general business conditions, are rarely used. The same is true of stock statistics. As to buying statistics, many stores get market reports, but pay little attention to a classification of the information contained therein. Use is seldom made of information as to sources, terms and discounts, deliveries, percentage of returned goods for each source, and the amount of mark-downs taken on merchandise from each source. The problems on personnel statistics in retailing open up a wide field to which should be applied many of the methods already worked out in industrial plants.

Problems of organization form another set of conditions which have to do with control. If a classification of retail problems were to be made on a chronological basis, the section on organization would naturally come up for first consideration, because a business must be organized before it can be operated. However, for purposes of practical use, it is much better to consider organization as that of a going concern. While it is true that the question of locating and of organizing and starting a new business cannot affect a going concern, these problems would be better understood after one has in mind the problems of accounting and statistics.

Retail organization deals with both the functional organization of personnel, and the physical organization of equipment. A plan of organization should attempt to delegate responsibility and at the same time increase administrative control. When considered functionally, the problems of organization divide themselves into two parts: first, the organization of the store as a whole, in relation to other stores; and second, the organization of administrative departments and the inter-relation of departments within the store itself. The physical side of organization has to do with location or the problems which arise in choosing a site for a store and with the problems of equipment.

A real estate expert, who was in charge of location for a large chain store, once said that there were no principles governing good location, and a good-location man could sense the possibilities of a prospective location without knowing how he did it. Experience, however, tends to contradict this statement and to show that there are certain things which must be taken into consideration in choosing a site for a store.

General merchandise problems in retailing can be distinguished from problems of buying, selling and stockkeeping in that they have to do with all three of these processes. Again, for purposes of classification, these general merchandise problems are divided into four parts: first, merchandise classification; second, stock or merchandise control; third, layout of merchandise; and fourth, other merchandise problems. All of these sections deal with the relation of merchandise problems to selling strategy.

A consideration of merchandise classifications not only affects better merchandise methods, but has a direct relation to a standardized accounting program for a store. Comparable figures between stores cannot be made on a departmental basis unless some merchandise classification has been agreed upon.

The problems of stock control apply to the merchandise itself those standards of control which affect accounting and statistics. Proper stock control is a mark which distinguishes modern retail establishments from less progressive institutions. Better managed stores consider the relation of sales to the buying power of the concern as a whole, and plan sales events far ahead of the time when they are to occur. The possibilities of saving which can come from a carefully planned layout of a store are overlooked by most retailers of the country. Layout, carefully studied, can be used as one of the biggest items in decreasing salesforce expense by increasing sales per salesperson. A study of the fast-moving lines in relation to fast-moving space and a decision as to whether customers should be attracted into the store or served quickly and gotten out of the store, will oftentimes change the entire layout policy of a concern.

More thought has probably been given to selling problems than to any other group of retail problems. The selling field offers a large opportunity for investigation because it is from sales that the store grows and prospers. Few stores, however, have a definite sales policy which they follow, but rather take advantage of selling opportunities as they arise. Advertising problems suggest questions of type of advertising to be done, advertising media to be used, the organization of advertising departments and the more general questions of advertising policy. In the organization and development of a credit department, stores must solve questions of extending credit and the organization necessary to insure protection and collection of

outstanding accounts and all general credit policies. Other interesting service problems are those of the policy in regard to returns and allowances and the policies for adjustment.

A greater emphasis has been placed upon delivery because of the investigations made during the war by the Conservation Division of the War Industries Board on delivery methods. Cooperative delivery plans, parcel-post delivery, the number of deliveries to be made in a day, and the question of the advertising value of owned equipment, are examples of delivery problems.

Proper handling of stock, from the time merchandise is received until it is placed on the selling floor, will eliminate many of the losses which are now suffered in retailing, and it is true that it has never occurred to many retailers that the elimination of these losses is as important as the elimination of unnecessary expenses. Some of the more progressive stores have recently given a good deal of thought to questions arising from stock handling. They have organized traffic departments to supervise the relations between the stores and the railroads and other transportation facilities which they use. These traffic departments follow the goods from the time the order is placed until the goods are received. Better receiving and marking methods are being developed to insure a more certain check on the correct pricing of merchandise. No standards have as yet been agreed upon in the use of stock records, and it is true that the majority of stores use records which do not reveal the true condition of stock at any one time. Questions of the kind of stock records which are necessary, and of how these records can be collected and how kept, should be considered by every retailer. Taken as a class the unit stores, where it would be easiest to keep complete stock records, have probably the poorest check of merchandise on hand. One can understand that, for example, in a house-furnishing department of a large department store, where there are probably 15,000 separate items of stock, it would be difficult to devise a scheme of records which would give a complete check. But the larger stores are doing everything within their power to get such records. Many plans are being tried out in connection with taking inventories, such as the use of inventory squads, of buyers from other departments, of blind checks, and of inventory equipment.

The retail method of inventory, in stores where it has been adopted, has greatly simplified the inventory problems, because it is unnecessary with this scheme to de-code price tickets to arrive at a cost figure. The adaptation of the retail method of inventory to other than department stores is an interesting question which is now being considered by many retailers.

The executive of a large metropolitan department store once said that he would guarantee a fortune to any man who could devise a method which would eliminate stock shortages in retailing. That particular store had a shortage amounting to about $300,000 for one year. The question of what causes stock shortages, why they occur, and the possible means of checking them, should be considered at some length in any discussion of retail problems.

Some retailers feel that buying problems are becoming standardized and for that reason are less important in a consideration of retail problems. Others feel that the technique of buying methods has not yet been established, and that the buying process today in retailing should be carefully studied. The organization of a buying department and its relation to the selling department and other departments, plans for buying in relation to stock control, a consideration of sources from whom to buy, and buying methods to be used, suggest the type of problems with which an executive in charge of buying is faced. During the recent rise and subsequent fall in commodity prices, the importance of the effect of general business conditions upon buying plans was very well brought out. At this same time terms and discounts on merchandise were discussed at length, not only by retailers, but by manufacturers, the retailers holding out for larger discounts and the manufacturers attempting to lower the discounts which they had been in the habit of extending. As a result of this controversy on discounts, buying policies are rapidly becoming more standardized.

The general administrative problems of retailing have to do with the operation of the store as a whole, rather than its departments. The personnel questions are receiving more attention today than they ever have in the past. Much is being done to educate, aid, and generally improve the workers, and a majority of the large stores have established educational departments to facilitate this work. A distinction should be made in the per-

sonnel problems of retailing between dealing with the executives of the store and with those who are not executives, but under both of these divisions the problems of organization, education, promotion and services, and method of payment, arise.

Financial problems in retailing depend so much upon the credit standing of the institution in question that it is hard to generalize. Insurance, taxation, financial statistics, and relations with creditors, however, are problems which interest every retailer.

Closely connected with the financial problems of retailing are those discussions which arise in the relation of the operation of a store to general business conditions. Within the last two years many stores have failed because they did not realize the significance of the business cycle and the economic background of business. These stores had probably solved their accounting, organization and merchandise problems, but had overlooked their relation to the field of business as a whole. Although these problems are considered towards the last of this book they form undoubtedly the most important section within it.

The problems of price policy are closely related to the questions of merchandise policy, financial policy, and the policies in relation to general business conditions. A determination of the selling price and the questions of mark-up and mark-down policies, price comparisons, and single-price standards, can be considered under this head.

This book offers no cut-and-dried, pigeon-holed classification for retailing problems, but, as one can see, one section relates closely to many others. For example, those problems which deal with personnel statistics might very well have been presented in the book, under the section of personnel problems. Again, the question of stock control might have been taken up in relation to stock records. It attempts to present, however, the problems of retailing in a coordinated plan, based upon the real experience of executives in retail institutions.

PART II

ACCOUNTING PROBLEMS

PART II

ACCOUNTING PROBLEMS

THE accounting problems of a retail store are extremely important because the whole basis of control of profits rests in their solution. They form the very backbone of retail operations. The belief held by a few retailers that accounting in any but the simplest form of bookkeeping is a superfluity, causes one of the most dangerous situations in the retail field—dangerous from the point of view of the retailer himself because he has little, and sometimes nothing, to tell him where he stands, and dangerous for his competitors because he cannot merchandise his wares intelligently unless he knows his costs. Both of these dangers eventually turn to losses for the retailer, his competitors, and through them, for the buying public and society at large.

Because of the importance of accounting, it seems best to place the accounting problems at the first part of this book. Another reason of less weight is a pedagogical one. In teaching retailing from an executive's view-point, no other problems lend themselves so well to a discussion of the principles of profit which underlie the reason for retail operations and at the same time give the background necessary for a consideration of other problems, both non-merchandise and merchandise.

The following classification has been chosen for retail accounting problems as one which covers the various aspects most thoroughly:

A. Introductory Problems.
B. Classification of Accounts.
C. Distribution of Expense.
D. Retail Method of Accounting.
E. General Accounting Problems.
F. The Audit and Its Problems.

Possibly two of these sections need a word of explanation. The problems surrounding the adoption of the Retail Method of Inventory are so troublesome from an accounting standpoint that it was thought best to give a short survey of them. The numbers and types of stores adopting this kind of accounting for inventory have grown very rapidly in the last two years, particularly since the ruling made by the Internal Revenue Department, allowing this method, was issued. The section on the Audit was placed last because it forms the natural transition into the Statistical problems which follow in Part III.

A. INTRODUCTORY PROBLEMS

Accounting 1

C. B. Perry Company—Figuring Yearly Profits

Mr. C. B. Perry operates a jewelry store in a small town in Vermont. His books show the following entries for the year ending December 31, 1920: net inventory of merchandise at beginning of year $17,218; net inventory of merchandise at end of year $27,398; net sales $49,164; purchases of merchandise at billed cost $44,940; inward freight and cartage $132; cash discounts taken $880; total expense $15,975.

Questions

1. What were his percentages of gross profit, net profit, and total expense?
2. What was his rate of stock-turn?
3. How can he use these figures to determine the average mark-up to be placed on his merchandise?
4. For instance, if a standard article of silverware, typical of the line of goods he carries, costs him $12, how should he use the above figures in determining the selling price?

Accounting 2

Houston Grocery and Market—Figuring Monthly Profits

June 15, 1920

Bureau of Business Research,
Cambridge, Mass.

Dear Sirs:

In reference to Bulletin No. 3, Item 12. How can you figure gross profit on a month's sales if you have special sales twice a month with cut prices? During sale we sell staple articles from 5 to 15%, in fact there is no given percentage figured. Between pay days (we have two pay days here a month) our prices average from 20 to 25%.

Please inform me how to figure gross profit on a month's sales when there is no standard mark-up on any one item.

Respectfully,

JH:HGM Houston Grocery and Market

Accounting 3

L. O. Wooley—Cost of Doing Business

Mr. L. O. Wooley operates a retail drug store in a town in Massachusetts. His books show the following results for the year ending December 31, 1919:

Allowances to customers	$37.61
Cash discounts taken on purchases of merchandise	512.03
Expenses	14,217.63
Inventory of merchandise January 1, 1919	12,150.08
Inventory of merchandise December 31, 1919	11,870.92
Inward freight and express	929.89
Purchases of merchandise at billed cost	47,742.78
Returns of merchandise by customers	242.03
Sales—cash	69,841.11
Sales—credit	2,311.85

Questions

1. What were his percentages of gross profit, net profit, and total expense?
2. What was his rate of stock-turn?

Accounting 4

James Smith Company—Income Sheet Form

July 25, 1920

Bureau of Business Research,
Harvard University.

Dear Sirs:

I am glad to hear from you. I am disgusted and almost busted. I have been getting poorer and poorer for the last five years. Two years ago my profits were $750.00 and last year I made only $380.00. I have borrowed money on my life insurance policy and on two notes. It has all gone and I am as poor as ever. I can't see where it all goes.

I run my store myself, here all day, allowing myself $18.00 a week salary. I hire one clerk; he takes orders in the morning and delivers in the afternoon. I pay him $16.50 a week. I own my store and charge myself rent $30.00 per month. I never have taken an inventory. I keep a record of sales and purchases in one book. In another book I try to enter all expenses.

I do not know anything about bookkeeping. Can you tell me what I should try to know about my business and what books to keep?

Yours very truly,

JD:JSC James Smith Company

The above actual letter was written by the proprietor of a small grocery store.

Questions

1. Submit an income sheet form showing the principal grouping of operating expenses and the names of the accounts that should make up each group.
2. Criticize, from the proprietor's statement, the accounting aspects of his business.

Accounting 5

A. L. Jackson—Merchandise Statement

Mr. A. L. Jackson conducts a general store in Tennessee, which has grown rapidly due to the war conditions of 1917 and 1918. The proprietor is no longer able to take care of the increased volume of business and has been forced to hire a number of extra salespeople and bookkeepers to relieve him and his old assistants of some of the work.

Mr. Jackson carries a line of goods calculated to appeal to customers in the immediate neighborhood of his store. Some of the principal items which he stocks are:

Kitchen utensils	Men's cotton trousers
Brooms and cleaning brushes	Shirts
Overalls	Woolen socks
Work clothes	A limited line of hardware
Cheap work shoes	A small line of groceries

He also carries a few typewriter ribbons, office calendars, and office supplies in his stationery department.

On December 31, 1920, Mr. Jackson's bookkeeper found difficulty in securing a balance and in straightening out the books. Consequently, the proprietor engaged a certified public accountant to go over the work. This accountant arrived at the following figures.

Returns and allowances to customers	$10,602.06
Purchases of mdse., at billed cost	190,421.45
Merchandise returned to wholesalers	18,291.00
Net inventory of mdse. Dec. 21, 1919	20,251.17
Inward freight, express and cartage	1,333.44
Gross sales	267,438.04
Inventory of mdse. Dec. 31, 1920	19,093.87
Cash discounts received on purchases of mdse.	5,553.82
Inventory of fixtures and supplies	18,021.00
Alteration costs	4,619.04
Depreciation of mdse. Dec. 31, 1920	4,141.23

Question

What was the gross profit and what was the rate of stock-turn in 1920?

Accounting 6

Sewall & Wing—Expense Statement

Sewall and Wing conduct a retail jewelry store in a city in Ohio. Their statement for the year ending December 31, 1919, was as follows:

Net sales	$49,164.22
Purchases of merchandise	44,192.88
Net inventory of merchandise January 1, 1919	17,218.16
Net inventory of merchandise December 31, 1919	27,398.29
Wages of sales force	4,243.12
Advertising	889.36
Buying, management, and office salaries	4,690.00
Office supplies, postage, and other management expense	362.85
Rent	1,820.25
Heat, light, and power	105.12
Taxes	151.72
Insurance	100.00
Depreciation of store equipment	272.47
Interest	163.02
Miscellaneous expenses	1,513.18
Cash on hand	2,016.18
Accounts receivable	4,502.12
Notes receivable	6,016.22
Securities	3,162.21
Accounts payable	13,902.12
Notes payable	1,400.00
Reserve for depreciation	225.00
Capital stock	12,000.00
Surplus	15,567.90

The proprietors of this store are at a loss to know why the business does not show a profit.

Questions

1. What suggestions should be given them for analyzing their business in order to learn how it may be made to show a profit?
2. Make out a complete merchandise and expense statement.

Accounting 7

J. B. King—Net Gain Statement

Mr. J. B. King operates a jewelry store in Indiana, where he has built up a small business largely through personal friendships formed during his many years as a watch repair man. Mr. King entered the employ of a local jeweler immediately upon finishing school and gradually worked up to be the head of the repair department. In January, 1920, he had an opportunity to buy out a small jewelry shop, and, consequently, he left his employer to build up a business of his own.

Mr. King owns his jewelry store, which previously rented for $1,200 a year. On December 31, 1920, his net worth was $10,355.09. The interest rate on first-class securities in Indianapolis was 6% on this date. When the books were closed on December 31, 1920, the following figures were obtained:

Advertising	$31.24
Insurance	143.50
Receipts from repairs and engraving	1,683.39
Depreciation of store equipment	153.00
Heat, light, and power	115.44
Wages of sales force	1,489.00
Buying, management, and office salaries	866.88
Miscellaneous expense	96.48
Deficit for the year	237.62
Taxes	176.64
Books and other selling expenses	85.86
Salaries and wages of engraving and repairing force	1,500.00
Withdrawals	4,298.82
Repairs of store equipment	83.07
Gross profit	7,637.75
Office supplies, postage, and other management expense	243.19
Supplies for repairing and engraving department	134.86
Income and excess profits tax	140.78
Total expense	5,305.61

Question

What items and entries should appear on Mr. King's net gain statement for the year 1920, according to the form used by the Harvard Bureau of Business Research?

Accounting 8

Rialto Department Store—Profit and Loss Form

(*a*) The items and amounts which follow represent the figures presented by a department store in a city of about 100,000 population. Arrange and fill in a Profit and Loss Statement for this business from these figures and show:

(1) The percentage of gross profit
(2) The percentage of total expense
(3) The rate of stock-turn

Merchandise bought	$737,014.43
Freight and Express paid	4,100.00
Inventory of merchandise at the beginning of the year	180,116.65
Total sales	1,099,124.92
Goods returned by customers	90,000.00
Rebates and allowances to customers	80,194.03
Parcel-post on goods delivered	1,853.42
Cash discounts taken	43,425.28
Returns and allowances received	109,479.33
Inventory of merchandise at end of period	187,564.22
Alteration cost	2,424.06
Salaries of the receiving and marking force	953.79
Newspaper advertising	30,000.00
Care of delivery equipment	1,000.00
Boxes and wrappings	4,275.36
Commissions paid to clerks	6,000.00
Wages of sales force	30,207.44
Office supplies and postage	3,581.03
Heat, light, and power	5,802.02
Depreciation of cartage equipment	853.42
Depreciation equipment	10,547.31
Other delivery expense	3,000.00
Delivery wages	3,216.44
Advertising expense	14,942.63
Traveling expense of buyers	1,968.00
Expense of collection on goods	844.73
Management salaries	20,000.00
Office salaries	16,518.38
Other buying expense	2,000.00
Salaries of buying force	15,000.00

Wages of porters, elevator operators, and store helpers	$6,946.05
Taxes	2,150.57
Losses from bad debts	2,500.02
Rent	36,262.49
Insurance except of building	2,837.31
Miscellaneous expense not otherwise accounted for	26,838.34
Wages of buying helpers	18,846.89
Wages of advertising staff	3,176.76
Selling expense not otherwise accounted for	1,789.37
Sundry revenue	9,885.33
Sundry expenditures	519.36
Income and excess profit taxes	12,031.78
Dividends	3,500.00
Interest on capital owned	7,478.89

(*b*) Criticize this statement, showing where the expenses are high and suggest possible means of eliminating probable wastes in the items which you think are too large.

Accounting 9

Alexander C. Green & Company—Adjustment of Figures to Profit and Loss Statement

The Alexander C. Green & Company department store has training courses for employees in many of its departments. For instance, one of the problems used in training men for the accounting office is to adjust the following figures to the standard profit and loss statement for department stores and to work out percentages of gross profit, percentages of total expense, percentages of net profit, and the rate of stock-turn.

Using the Profit and Loss sheet that is published by the Harvard Bureau of Business Research for Department Stores, adjust the following figures to that form.

Ground Rent	$3,000.00
Advertising for Help Wanted	1,831.35
Taxes on Store Building	13,800.00
Gross Sales	5,262,855.41
Executive Salaries and Wages	66,033.75
Tax on Merchandise	17,273.16
General Taxes	2,782.05
Returns and Allowances to Customers	448,858.14
Wages of Office Force	62,005.73
Interest on Net Worth of the Business	66,506.10
Administrative and General Supplies	10,284.82
Salaries and Wages of Porters, Janitors, and Elevator Operators	82,760.86
Rent for Store Windows	4,896.18
Cleaning Supplies	5,895.38
Heat, Light, and Power	30,273.54
Unclassified General and Administrative Expense	32,009.44
Other Administrative Salaries	32,513.43
Net Inventory of Mdse. at Beginning of Year	930,672.91
Salaries of Advertising Staff	23,491.84
Cash Discounts on Purchases of Mdse.	99,775.09
Salaries of Buying Force	128,654.49
Net Purchases of Mdse.	2,978,420.14
General and Administrative Traveling Expenses	3,119.80
Insurance on Store Building	3,310.80
Losses from Bad Debts	5,896.47
Inward Freight, Express and Cartage	25,945.30
Salaries and Wages of Selling Force	264,034.47
Interest on Investment in Delivery Equipment	477.66
Unclassified Selling Expense	12,155.74
Depreciation of Store Building	51,337.32
Wages of Delivery Force	18,714.24
Net Inventory of Mdse. at End of Year	741,962.07
Supplies for Window Trimming Dept.	13,116.57
Traveling Expenses of Buyers	24,788.12
Telephone, Telegraph and Postage Expense of Advertising Dept.	1,077.32
Insurance on Delivery Equipment	1,200.00
Supplies for Buying Force	1,010.17
Salaries and Wages of Stock Boys, Cash Girls and Indirect Selling Force	76,032.84

Postage, Telephone and Telegraph Charges for Administrative and General Depts.	$10,202.11
Repairs on Store Building	43,499.71
Depreciation on Store Equipment	2,988.82
Car Fare for Delivery Boys	57.00
Supplies for Selling Force	37,107.86
Unclassified Buying Expense	10,300.46
Newspaper Advertising	112,453.82
Unclassified Occupancy Expense	6,306.34
Interest on Capital Invested in Store in Addition to Working Capital Owned	58,687.98
Supplies for Delivery Department	4,684.84
Insurance on Office Equipment, Records, Fire, Burglary and General Protection	7,655.38
Unclassified Publicity Expense	6,159.59
Wages of Receiving and Marking and Stockroom Force	18,742.34
Traveling Expenses of Advertising Staff	782.04
Repairs of Delivery Equipment	2,826.79
Alteration Costs on Merchandise Sold	127,761.31
Unclassified Delivery Expense	1,798.35
Net Sundry Revenue	1,947.54
Interest Paid, Sundry	74,182.13
Rent on Garage	1,800.00
Dividends and Profit Sharings	60,000.00
Provision for Income and Excess Profit Taxes	10,000.00

Accounting 10

The Gallaudette Store—Form of Profit and Loss Statement

The failure of the general public to understand the cost of operating a retail business has led to many misconceptions as to the profits derived from such a business. Department stores have vied with one another in offering many kinds of free services to their customers. The buying public, however, has failed to take into account the fact that such conveniences as free delivery, special restrooms, the extension of credit privileges, free alterations, and improved elevator service, all cost money. For example, the Gallaudette store employs 3,942 people, of which

number only 2,107 are employed in the actual selling of merchandise. The rest of the employees are required in the main office, the receiving, marking, and stockrooms, the advertising department, the delivery service, the display department, the occupancy force, the elevators, restrooms, restaurant, credit department, planning department, personnel department, educational and welfare division, and the manufacturing and alteration departments.

PROFIT AND LOSS STATEMENT

For year ending . . . . 19 . .

Gross sales				....	
Returns and allowances to customers				....	
Net sales					....
Net inventory of merchandise at beginning of year	....				
Net purchases of merchandise	....				
Inward freight, express, and cartage	....				
Gross cost of merchandise handled		....			
Net inventory of merchandise at end of year		....			
Gross cost of merchandise sold			....		
Cash discounts received on purchases of merchandise			....		
Net cost of merchandise sold				....	
Alteration costs				....	
Manufacturing costs				....	
Direct Sales expense				....	
Indirect sales expense				....	
Cost of sales					....
Net profit (or loss)					....
Sundry revenue (net)				....	
Interest and rentals earned				....	
Total net gain (or loss)					....
Provision for income and excess profit taxes				....	
Dividends, sharings, or withdrawals				....	
Surplus (or deficit) for the year					....

FORM No. 1. Profit and Loss Statement—The Gallaudette Store

The Gallaudette store is a member of the Mid-Western Retailers' Association, which is anxious to educate the public in regard to the costs of doing business. Inasmuch as it is thought that the public has a better appreciation of the costs of carrying on a manufacturing enterprise than of the costs of retailing, it is proposed as a preliminary step to adopt a profit and loss statement that will conform as closely as possible to the form of statement used by manufacturing establishments. It is proposed to do away with the term "gross profit" and to show no profit figure except net profit. The cost of the merchandise and the expenses of operating the store will be added together; and the total subtracted from the net sales will give the total expense of the business. See Form 1, page 30.

It is hoped that this plan will do much to obviate the danger of uninformed persons believing that gross profit means the same as net profit or surplus for the year. The Association expects to have this form of statement adopted by its members, and hopes to have each store acquaint its customers, through advertisements and other forms of publicity, with the costs of operating a retail business.

Question

Should the Gallaudette store adopt the proposed form of profit and loss statement?

Accounting 11

Langdell Brothers—Charging Proprietors' Salary, Rent, and Interest as Operating Expense

Mathew and Charles Langdell operate a jewelry store on a partnership basis in Indiana. This store carries the usual line of precious stones, gold and plated jewelry, watches, clocks, sterling and plated silverware, novelties, cut glass and china, and optical goods. In addition there is a repairing and engraving department. Mathew Langdell does all the selling, while his brother devotes half his time to repairing and engraving and half to buying, management, and bookkeeping.

In 1920 Langdell Brothers were offered $60,000 for their business, and $1,300 a year rent for their store building, which they owned. At the same time both of them had an opportunity to go into one of the largest jewelry stores at salaries of $2,000 each, with excellent prospects of advancement. At the time these offers were made, Langdell Brothers estimated the net worth of their business to be $48,336.07, but they believed that the good will of the business was worth easily $25,000; consequently they refused the offer of $60,000.

On May 15, 1921, the Harvard Bureau of Business Research received from Langdell Brothers the following profit and loss statement. (See Form 2, page 33.)

On July 20, 1921, after carefully checking Langde'l Brothers' statement, the Bureau sent them the following corrected copy (See Form 3, page 34.)

On August 1, 1921, the following letter was received from Langdell Brothers:

July 29, 1921

Harvard Bureau of Business Research,
Cambridge, Massachusetts.

Gentlemen:

We are in receipt of your profit and loss statement for our store.

We notice that you charge us with $1,300.00 rent when we told you that we owned our own store and did not pay any rent. Why should we take money out of one pocket and put it in another in order to call it rent?

You also charge us with $4,000.00 salary. Why should we take money out of our coat pocket and put it in our vest pocket and call it salary? As we explained to you before, we are in business for ourselves; consequently, we do not work for salary, but for profits. When we want to work for a salary we will sell out our business and go to work for someone else.

You charge us with $3,383.52 interest on the net worth of our business. Now we do not have to pay interest on our own money. If it costs us just as much interest to use our own capital as to borrow from the bank, what is the use of trying to save so as to get ahead?

Reference: Harvard Bureau of Business Research, Bulletin No. 8, *Accounting System for Wholesale Grocers*, p. 29.

Ibid: Bulletin No. 27, *Operating Expenses in Retail Jewelry Stores in 1920*, pp. 14-15.

BUREAU OF BUSINESS RESEARCH JP

No.........

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

OPERATING ACCOUNTS FOR RETAIL JEWELRY STORES

PROFIT AND LOSS STATEMENT, for year ending January 1, 1921

Gross Sales			34,950.16	
Returns and Allowances			1,500.00	
Net Sales				33,450.16
Inventory of Merchandise at Beginning of Year		16,752.93		
Purchases of Merchandise at Billed Cost		24,920.89		
Inward Freight, Express, and Cartage		142.87		
Gross Cost of Merchandise Handled			41,816.69	
Cash Discounts Taken			425.65	
Net Cost of Merchandise Handled			41,391.04	
Inventory of Merchandise at End of Year			18,415.28	
Cost of Merchandise Sold				22,975.76
Gross Profit				10,474.40
Wages of Salesforce		3,160.13		
Advertising		567.52		
Boxes, Wrappings, and Other Selling Expense		185.47		
Total Selling Expense				
Delivery Expense			3,913.12	
Buying, Management, and Office Salaries				
Office Supplies, Postage, and Other Management Expense		406.91		
Total Buying and Management Expense			406.91	
Rent				
Heat, Light, and Power		171.93		
Taxes (Except on buildings, income, and profits)		114.00		
Insurance (Except on buildings)		287.77		
Repairs of Store Equipment				
Depreciation of Store Equipment		220.00		
Interest on Capital — Borrowed	59.60			
Interest on Capital — Owned				
Total Interest		59.60		
Total Fixed Charges and Upkeep Expense			853.30	
Miscellaneous Expense			511.21	
Losses from Bad Debts				
Total Expense				5,684.54
Net Profit				4,789.86
Repairing and Engraving:				
(a) Receipts		7,706.80		
(b) Salaries and Wages	2,193.58			
(c) Supplies and Other Expense	716.32			
(d) Total Repairing and Engraving Expense		2,909.90		
Net Profit on Repairing and Engraving			4,796.90	
Sundry Revenue (Net)				
Interest and Rentals Earned				4,796.90
Total Net Gain (or Loss)				9,586.76
Income and Excess Profits Taxes				
Dividends, Sharings, or Withdrawals				
Surplus for the Year				9,586.76

FORM No. 2. Statement Sent Harvard Bureau by Langdell Brothers

No. .... **BUREAU OF BUSINESS RESEARCH** JP

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

OPERATING ACCOUNTS FOR RETAIL JEWELRY STORES

PROFIT AND LOSS STATEMENT, for year ending January 1, 19 21

Gross Sales			34,950.16	
Returns and Allowances			1,500.00	
Net Sales				33,450.16
Inventory of Merchandise at Beginning of Year		16,752.93		
Purchases of Merchandise at Billed Cost		24,920.89		
Inward Freight, Express, and Cartage		142.87		
Gross Cost of Merchandise Handled			41,816.69	
Cash Discounts Taken			425.65	
Net Cost of Merchandise Handled			41,391.04	
Inventory of Merchandise at End of Year			18,415.28	
Cost of Merchandise Sold				22,975.76
Gross Profit				10,474.40
Wages of Salesforce		5,160.13		
Advertising		567.52		
Boxes, Wrappings, and Other Selling Expense		185.47		
Total Selling Expense			5,913.12	
Delivery Expense				
Buying, Management, and Office Salaries		1,000.00		
Office Supplies, Postage, and Other Management Expense		406.91		
Total Buying and Management Expense			1,406.91	
Rent		1,300.00		
Heat, Light, and Power		171.93		
Taxes (Except on buildings, income, and profits)		114.00		
Insurance (Except on buildings)		287.77		
Repairs of Store Equipment				
Depreciation of Store Equipment		220.20		
Interest on Capital — Borrowed	59.60			
Interest on Capital — Owned	3,383.52			
Total Interest		3,443.12		
Total Fixed Charges and Upkeep Expense			5,536.82	
Miscellaneous Expense			511.21	
Losses from Bad Debts				
Total Expense				13,368.06
Net Loss				2,893.66
Repairing and Engraving:				
(*a*) Receipts		7,706.80		
(*b*) Salaries and Wages	3,193.58			
(*c*) Supplies and Other Expense	716.32			
(*d*) Total Repairing and Engraving Expense		3,909.90		
Net Profit on Repairing and Engraving			3,796.90	
Sundry Revenue (Net)			4,683.52	
Interest and Rentals Earned				8,480.42
Total Net Gain (or Loss)				5,586.76
Income and Excess Profits Taxes				
Dividends, Sharings, or Withdrawals				
Surplus for the Year				5,586.76

FORM No. 3. Statement as Corrected by Harvard Bureau and Returned to Langdell Brothers.

We notice that you say we had a loss of $2,893.66 on our jewelry business and that with our other income we only had a surplus for the year of $5,586.76.

This statement is certainly not correct, as we can prove by our bank balance and other assets that we have a surplus for the year of $9,586.76. Please tell us what are your reasons for charging us with the above items of expense and why you say we have a surplus for the year of only $5,586.76.

Very truly yours,

JS:CL

Langdell Brothers
By Chas. Langdell

Question

What reply should be made to this letter?

Accounting 12

Fairwell Specialty Store—Cash Discounts

The Fairwell Specialty Store, doing an annual business of $2,321,000 in a large eastern city, handles women's waists, skirts, hosiery, lingerie and undergarments, suits, and millinery, all of a quality intended to appeal to a discriminating class of customers.

For a number of years this store has followed the policy of requiring all its buyers to secure a 9% discount and at the same time to buy their goods as cheaply as any of their competitors. Some stores require their buyers to secure a 10% discount, and charge them with the difference if they fail to secure it, but since the usual discounts taken run from 8% to 10%, the Fairwell Specialty Store has considered 9% as the fairer figure. As all stores in this district are carefully shopped, it is easy to tell when goods have been purchased at a higher figure than that paid by competitors. This is possible because most of the stores use about the same percentage of mark-up on similar classes of merchandise.

The controller of the Fairwell Store, Mr. Wilcox, believes that this cash discount of 9% should be treated as a capital earning due to the store's large buying power. Consequently, in his profit and loss statement he shows cash discounts taken in his net gain statement instead of subtracting them from the billed cost of merchandise. He believes that these discounts are a reward for having the money on hand to pay bills promptly and that it is good business to treat them as a reserve against possible losses.

By basing the mark-up on the billed cost of the merchandise before the discount is taken out a lower percentage of mark-up can be used than if it were based upon the billed price less the discount. Since, in framing retail regulations, legislators give but little heed to the basis on which a mark-up is taken as long as the mark-up is low, this is an important point.

Furthermore, Mr. Wilcox believes that if the discounts were deducted from the billed cost of the merchandise there would be a tendency among certain stores to cut prices since some stores are able to get a slightly larger discount than others. Thus the policy of basing the mark-up on the billed cost of the merchandise makes prices more nearly the same throughout the city. Another argument is that since these discounts are due to the store's bargaining power rather than to the individual ability of the buyer, the store as a whole, not the individual department, should be credited with this profit. As all buyers do not have the same ability, the policy of requiring each deparment to secure a 9% discount makes each buyer try to secure the biggest possible discount, and at the same time gives the executives a basis on which to gage the ability of the various buyers.

This policy also secures lower prices for the retailer, states Mr. Wilcox, for once a manufacturer is induced to give a 9% discount, the discount is always deducted from his bill. For example, if a certain clothing manufacturer reduces his prices on a falling market, the buyer bargains in an attempt to drive down these prices as low as possible. The store then deducts its usual 9% discount from the bill.

Mr. Wilcox asserts, that if the buyers are told they must secure a 9% discount and then find that this discount is deducted from the billed cost to determine the cost of the merchandise, they will decide that there is little use in working to secure

discounts since the store operates on the net figure anyway. This step would break down the system of loading. Inasmuch as it is the general practise and custom of the retail trade to demand discounts, a store which did not use every effort to make its buyers secure big discounts would be at a disadvantage.

Mr. Wilcox is anxious to be relieved of a part of his work in the store. For this reason he has been contemplating turning over the accounting work to a certified public accountant who has been handling this function for 23 small department stores in this locality. Upon talking over his accounting problems, however, Mr. Wilcox has found that this accountant has been accustomed to using the following merchandise statement in his work for the other stores, and that he is unwilling to make any changes.

MERCHANDISE STATEMENT			
Gross Sales of Merchandise		....	
Returns and Allowances to Customers		....	
Net Sales of Merchandise			....
Net Inventory of Merchandise at Beginning of Year	....		
Purchases of Merchandise	....		
Inward Freight, Express, and Cartage	....		
Gross Cost of Merchandise Handled	....		
Cash Discounts Taken on Purchases of Merchandise	....		
Net Cost of Merchandise Handled	....		
Net Inventory of Merchandise at End of Year	....		
Net Cost of Merchandise Sold			....
Gross Profit on Merchandise			....

FORM No. 4. Merchandise Statement—Fairwell Specialty Store

Question

Should the Fairwell Specialty Store adapt its accounting to this merchandise statement?

Accounting 13

The Ruggles Company—Accounting for Depreciation

July 23, 1921

Bureau of Business Research,
Harvard University,
Cambridge, Mass.

Gentlemen:—

We want to have some light on the following and trust we are not imposing on you when we ask you to consider the matter and advise us whether we are right or not.

It is our practise to charge three per cent on purchases for depreciation on merchandise, and we credit an account called "Reserve for Depreciation on Merchandise." We intend to follow in our accounting as much as possible facts as they are, but we are not sure that this percentage is accurate or approximately accurate. Our experience, however, has proven to us that there is a loss on new goods by the time they have been put on our shelves. Also, there is a loss on seasonable goods, such as straw hats, which we cannot possibly sell in December. These same hats cannot be sold at the regular price the next season. They take up room, and you know that this all means extra expense. At the same time, because of the income tax regulations, we are forced at the end of the year when we take inventory to put these straw hats on the inventory at cost, although we know perfectly well that we will sell them sometime during the following year far below cost.

Therefore, due to this inventory the final statement will show profits that we did not make and cannot make in the future. We could cite several more instances of actual loss on merchandise that are unavoidable. All such losses we intend to make a proper record of by a standard percentage of depreciation for which we make the charge monthly in order to have as much as possible an equal expense distribution during the year.

We now would like to have your opinion as to our practise and as to the percentage itself—whether you think it is too high or too low.

We trust we have explained the matter sufficiently to enable you to give us your clear opinion. Otherwise, we will be glad to answer any questions that you may wish to put to us first.

Yours very truly,

RS:RC The Ruggles Company

Question

How can this situation be handled so that the true state of the business can be shown at inventory time?

Accounting 14

Whitman Department Store—Depreciation

The Whitman Department Store has a total yearly sales volume of $922,000. This store is located in Mobile, Alabama, where it draws a high class of trade and is rather unique in having the patronage of a group of men customers who always make their purchases at this store. Consequently, Mr. Carter, the general manager, has a men's furnishing department, a tailoring department, and a shoe department, as well as dry goods, stationery, furniture, women's ready-to-wear, small wares and other customary department store sections.

It is Mr. Carter's policy to mark down his line of shoes as soon as the sales begin to fall off. Two weeks before inventory, in January and July, all shoe stocks are given their final mark-down. Consequently, no depreciation or allowance for depreciation is made at the time inventory is taken. In talking over the shoe situation with a friendly competitor, Mr. Carter has learned that in addition to the mark-downs many shoe dealers take a big depreciation on all shoe stocks at inventory time. Mr. Carter believes that he ought to have some method of taking depreciation on his stock of shoes, and, consequently, he has obtained from the Harvard Bureau of Business Research a bulletin which explains that the following methods of depreciation are in use in the shoe trade:

Three main methods of depreciation in use in the retail shoe trade may be described as follows:

(*a*) *The arbitrary percentage method* depreciates all stock by a certain fixed percentage, usually some multiple of five—5%, 10%, 15%, 20%, at each inventory time. Though this is arbitrary and may be unjust to some portions of the stock, it has the advantage of working surely without being affected by human bias. When inventory is taken at billed cost the value is determined automatically; that is, by the manufacturers' or wholesalers' price to the retailer. Then the application of a percentage for depreciation makes the paring down also automatic.

Just what percentage should be employed must be determined by experience. One important shoe concern with large retailing experience employs 4% each six months. The Bureau would not advise a depreciation, at least at the start, of less than 10%.

(*b*) *The age-of-stock percentage method* increases the percentage of depreciation with the age of stock to which it is applied. For example, stock on hand more than one year is depreciated 50%, stock on hand less

than one year but more than six months 25%, and stock on hand less than six months according to method (a) or method (c).

(c) *The appraisal method* is based on the estimated market value at inventory. In theory this is the soundest method of depreciation, for both in theory and in fact the value of an article at any time is what it will bring at that time. Unfortunately, what an unsold shoe will bring does not depend upon the manager's or stocktaker's judgment, for he may be too optimistic or too pessimistic, or for other reasons may err. However, if a concern has confidence in its estimates of the market value of shoes unsold at inventory date, it may proceed in the following way:—

Upon its inventory books, or sheets, provide three columns 1, 2 and 3 (the first two to be filled in detail, the third to be used for test purposes). In Column 1 enter the billed cost of the shoe, with no discount deducted; in Column 2 enter the price at which it is thought the shoe will surely sell. Then to the total of all items in Column 2 apply the percentage of average gross profit (including discounts taken) for the last two years and deduct the amount thus obtained from the total of Column 2. This percentage of gross profit corresponds to that of Item 17 of the Profit and Loss Statement. The remainder of the total of Column 2 deducted from the total of all items in Column 1 will give a figure of depreciation with accuracy corresponding to the accuracy of the appraiser's judgment. Column 3 may be used for testing the inventory appraisal, for in it may be entered later the actual price at which the shoe did sell.

Question

Which method, if any, is it advisable for Mr. Carter to adopt in his store?

Accounting 15

The McAlpine Department Store—Charging for Alterations

The McAlpine department store, located in a large city on the Pacific coast, does an average annual business of about $12,500,000. This store carries women's waists, neckwear, lingerie, suits, coats, dresses, skirts, dry goods, jewelry, notions, drugs, house furnishings, furniture, men's suits, shoes, and furnishings. Although operating a bargain basement to sell

the cheaper lines, this store carries a good grade of merchandise in its upstairs departments. Other department store and specialty shop competition is keen in ready-to-wear goods. Consequently, the McAlpine store makes alterations on many garments in order to insure its customers of a good fit. This service is furnished to customers without extra charge.

Mathias Golden, merchandise manager of the rug, house furnishings, and furniture departments of this store, objects to this policy of free alterations because he asserts that it robs him of his due share of the profits. Mr. Golden maintains that if a customer has a suit altered to fit her, she ought to pay for the service rendered. This should be accomplished, he believes, by a direct charge to the customer added to the price of the suit.

The treasurer, Mr. Goddard, says that extensive alterations would not be necessary if the buyers were efficient and purchased the right styles and sizes. For this reason he holds that all alteration expense should be charged as part of the cost of merchandise. He recommends that in each department in which alteration costs are incurred, a certain percentage, determined on the basis of alteration work for the preceding period,be added to the invoice figures before the goods are marked with the retail price.

The general manager, Mr. Bernheissel, thinks that the cost of alterations should be charged as a selling expense to the department concerned. He maintains that the goods are brought into the store in excellent condition, but that the customer must be assured of a good fit or she will not buy; therefore, he says that the cost of alterations is a selling expense and should be treated as such. Mr. Bernheissel believes that the cost of alterations should be charged against the departments involved at the end of each month.

The controller suggests, however, that the percentage of alteration expense to net sales of ready-to-wear garments should be determined by an analysis of past records. This expense could then be taken care of by allowing an additional percentage of mark-up on all ready-to-wear suits.

Question

This question is now before the Board of Directors for decision: What policy should be adopted?

Accounting 16

The Shortridge Company—Inclusion of Some Part of Buying Expense in the Cost of Merchandise

In 1921 the Harvard Bureau of Business Research undertook a study of expenses in department stores and dry goods stores. A schedule, comprising a merchandise statement, an expense statement, and a net gain statement, was mailed to the principal department stores in the United States.

Shortly after these forms had been sent out the following letter was received by the Bureau from the Shortridge Department Store.

June 1, 1921

Bureau of Business Research,
Cambridge, Massachusetts.

Dear Sirs:

We have received your schedule for department stores together with the accompanying letter and explanation. We are glad to have the opportunity of cooperating in this work.

On one point, however, the practise which has long been followed by this store differs materially from the methods outlined in your explanation of the schedule for department stores. Owing to our distance from the markets where most of our merchandise is purchased, we have found it advisable to include expenses of buyers on eastern and foreign trips together with part of their salaries in our cost-of-merchandise figure. We believe that these items are fully as much a part of the cost of merchandise as inward freight, express, and cartage, which we note that your explanation includes as part of the Gross Cost of Merchandise handled. Our practise in this regard does not differ from that of a number of other department stores in this locality. For purposes of comparison we think that our figures will be more valuable to you if we continue to include part of the so-called "buying" expense in our gross-cost-of-merchandise-handled figure. We hope that this will be satisfactory to you.

Yours very truly,

RD:MJS

M. J. Shortridge,
Treasurer

Accompanying the schedules sent out was an explanation of what was to be included under each item. The explanation of

the items making up Gross Cost of Merchandise Handled was as follows:

NET PURCHASES OF MERCHANDISE

Merchandise purchases less returns and allowances received from manufacturers or wholesalers, and less trade discounts.

Duties and insurance on imported purchases.

Cost of all goods obtained by merchandise departments from manufacturing departments.

INWARD FREIGHT, EXPRESS, AND CARTAGE

All charges for transportation of merchandise from manufacturer or wholesaler to store or warehouse.

GROSS COST OF MERCHANDISE HANDLED

The sum of Net Inventory of Merchandise at Beginning of Year, Net Purchases of Merchandise, and Inward Freight, Express, and Cartage.

Question

What reply should the Bureau of Business Research have made to the letter from the Shortridge Company?

ACCOUNTING 17

COX GROCERY COMPANY—ACCOUNTING CONTROL FOR SMALL CHAIN

William Cox entered the employ of a large grocery chain in Brooklyn, N. Y., immediately after leaving high school, and became manager of a store at the age of 21. After four years of experience in this position Mr. Cox severed his connection with this company and moved to a suburb of one of the larger Massachusetts cities, where he purchased a small grocery store which had recently failed. Mr. Cox conducted this grocery store on a cash basis for eight years. Then he purchased another small store in a neighboring suburb. During the next five years he purchased three other grocery stores all located within five miles of the original store. These branch stores were conducted by individual managers who determined their own policies and did their own purchasing, with the exception of fresh meats, which

were brought out from the city daily by Mr. Cox and distributed by him personally to the five stores. Each store was operated as a separate unit with separate records.

Shortly after securing his fifth store Mr. Cox organized the Cox Grocery Company and incorporated under the laws of Massachusetts with a capitalization of $50,000. Mr. Cox held $40,000 of the capital stock, and the remaining $10,000 was purchased by the four store managers out of their savings.

At present a check book forms the only record kept by each store, and consequently it is impossible to show detailed items of operating expenses for any one store or for the corporation as a whole. Considerable difficulty, furthermore, has occurred in filling out income tax returns for the corporation. Mr. Cox is anxious to remedy this condition of affairs, and he has decided to establish an accounting system. He now has two plans under consideration.

His first plan proposes to establish one set of books at the original store to handle the accounts for the entire corporation. Daily and weekly reports would be made out by the managers of each of the stores and forwarded to the central office, where all the accounting would be centralized. The installation of this plan, however, would involve several changes in managerial policies, as follows:

1. All invoices for merchandise would have to be forwarded for payment at the central office.
2. It would be necessary to employ a bookkeeper at the main store at least part of the time. This would eliminate all bookkeeping in the individual stores and would place a check upon the expenditures of the individual managers.

Under this arrangement the accounts of each store would be handled according to a standard classification, so that it would be possible to compare the figures of the various stores.

The second plan is similar to the first in providing for a standard classification of accounts, but each store would have its own complete and separate set of accounts. This plan would be a continuance of the present policy of operating the stores as individual units as though they were separately owned and managed. It is suggested that figures for total sales, expenses, and profits of each store could be collected easily from these

individual sets of books wherever it became necessary to make income tax returns or to fill out any of the forms required for the corporation.

Question

Which plan should the Cox Grocery Company adopt?

Accounting 18

C. H. Watson—Method of Handling Cash

July 18, 1921

Harvard University,
Bureau of Business Research,
Cambridge, Mass.

Gentlemen:

I am about to close a deal for a grocery store and meat market (combined) here doing a cash business only of $66,000 per year. Of this groceries are two-thirds of the amount of the sales and meats one-third. The former owners have carried a one-drawer cash register in the meat market, also a one-drawer cash register in the grocery division. I expect to employ three clerks in the grocery and one in the market department regularly, with an extra man or two on Saturdays and in rush seasons.

I would like for you to outline for me the best, simplest and most efficient system for keeping a record of cash sales, merchandise account and expense account, remembering that separate records must be kept of the meat market business. I do not think it necessary to carry any other accounts unless it might be a fixture account, which would be a simple matter. I forgot to state that the amount of stock on hand is $5,000 with fixtures valued at $1,250 including a Ford car for delivery purposes. Deliveries are made during the hours of 9 to 11 a. m. and 2 to 4 p. m. only on purchases from $1.50 and up. I enclose stamped envelope and will thank you for an early reply, and expect to make the deal within one week.

Very truly yours,

EH:CHW (Signed) C. H. Watson

P. S. Would you advise my putting in a girl as cashier and having clerks give cash slips to customers and for customers to pay cashier, rather than to use present system of cash registers? This would enable me to put in practically all my time on the floor with the trade as the girl could keep the books.

Also would you kindly advise me as to what the yearly expense account should be for a concern doing this amount of business, kindly itemizing expense, for rent, clerk hire, insurance, heat, light, advertising, and other items.

Question

Answer this letter.

B. CLASSIFICATION OF ACCOUNTS

Accounting 19

The Iowa-Illinois Affiliated Retailers' Association—Classification of Expenses

In the early part of 1921 a group of small department stores, drygoods stores, and specialty stores in Iowa and southern Illinois formed an association for the purpose of exchanging merchandise and expense figures. In annual volume of sales these stores ranged from a little under $500,000 in the smallest to slightly more than $2,000,000 in the largest. As soon as the organization was completed, a committee was appointed to draw up a standard classification of expenses as a basis for exchanging comparable figures.

The expense accounts appearing on the books of a typical store in this group in 1920 were as follows:

Executives' salaries.

Salaries and wages of managers and employees of employment, educational, and welfare departments.

Salary of editor of house organ.

Wages of telephone operators.

Salaries and wages of bookkeepers, stenographers, and typists.

Salary of building and warehouse superintendent.

Salaries and wages of engineers, electricians, carpenters, and elevator operators.

Salaries of advertising manager and assistants.

Salaries and wages of copywriters, proofreaders, and window decorators.

Salaries of buyers and assistant buyers.

Salaries of merchandise managers and assistant merchandise managers.

Salary of manager of New York office, and assistant.

Salaries, commissions, and wages of sales force.

Wages of stock clerks.

Salaries and wages of employees in receiving and marking room.

Salaries and wages of sales managers and assistants of floor managers and assistants.

Wages of cashiers, examiners, and bundle girls.

Salary of mail-order department manager.

Salaries and wages of delivery and shipping room superintendent and employees.

Wages of drivers and helpers, mechanics and their assistants.

Wages of watchmen, porters, maids, and attendants.

Salaries of store detectives.

Wages of employees in manufacturing and alteration departments.

Miscellaneous salaries.

Rent of store building.

Rent of warehouse.

Rent of garage.

Rent of New York office.

Advertising space purchased in newspapers, periodicals, programs, street cars, and other media.

Catalogs and circulars.

Taxes on real estate.

Taxes on equipment.

Federal excise tax.

State tax on merchandise.

Federal income and excess profits taxes.

State income taxes.

Taxes and licenses on automobiles used for delivery.

Interest on borrowed capital.

Interest on real estate mortgage.

Stationery and office supplies.

Laundry and housekeeping supplies.
Water and fuel.
Accounting books and forms.
Tags, tickets, and labels.
Engine and boiler-room supplies.
Wrapping paper and twine.
Sales books.
Boxes.
Gasoline, oil, grease, tires, and tubes.
Horse feed.
Electric light.
Gas.
Parcel-post.
Membership dues.
Entertainment contributions and gifts.
Inspection fees.
Trading stamps and redemption.
Damage and loss incurred in delivery.
Traveling expenses of executives.
Traveling expenses of buyers.
Other traveling expenses.
Stamps, stamped envelops, and postal cards.
Telephone, telegraph, and cable charges.
Repairs of store and warehouse equipment and fixtures.
Repairs of delivery equipment and fixtures.
Repairs of office equipment.
Repairs of heating, lighting, and power equipment.
Fire insurance on merchandise.
Employers' liability insurance.
Casualty insurance.
Surety bonds.
Burglary insurance.
Insurance on store and warehouse equipment and fixtures.
Boiler insurance.
Elevator insurance.
Plate glass insurance.
New York office insurance.
Losses from bad debts.
Depreciation of store and warehouse equipment and fixtures.
Depreciation of delivery equipment and fixtures.

Supplies and materials for manufacturing and alteration departments.
Professional accountant's service.
Professional legal service.
Collection costs.
Professional advertising service.
Interest on preferred stock.
Miscellaneous expenses.

Questions

1. How should these items of expense have been grouped for purposes of comparison?
2. Which items should have appeared in each group?
3. Should the committee have omitted any items of expense appearing on this list?
4. Should any other items have been included?

Accounting 20

Frank F. Fallon Co.—Selection of Proper Accounting System for Department Store

The Frank F. Fallon department store is doing a business of about $1,100,000 annually. Fallon is located in New England, where he has built up his business from an old general store inherited from his father. In 1915 his sales increased 17% and as a result he was forced to increase the number of departments and the size of his force. The old bookkeeper was unable to handle the increased amount of accounting work necessary and Mr. Fallon decided that the time had arrived to install an up-to-date accounting system. Therefore, he engaged Black & Shepard, public accountants, to install a department store method of accounting. The new system divided the store into 18 departments as follows:

1. Men's furnishings, regular
2. Men's furnishings, special order
3. Mail order
4. Books
5. Stationery
6. Athletic goods
7. Yard goods
8. Furniture, regular
9. Furniture, special order
10. Tailoring
11. Women's suits
12. Waists
13. Accessories (women's)
14. Stable, garage, receiving, and shipping
15. Building maintenance and operation
16. Accounting
17. Personnel and education
18. Management

All expenses are distributed directly to each of these departments as soon as they are incurred and are classified into 10 separate accounts within each department as follows;

1. Salaries.
2. Rent, light, and heat, and expenses incurred for the same. Water, protection, care, cleaning, and a proportion of building expenses.
3. Insurance on merchandise.
4. Advertising, including actual charges for newspaper space, and a proportion of general charges.
5. Shipping, including charges for paper and twine, freight, express, cartage, and car fare, and its proportion of general charges.
6. Stationery.
7. Postage, general only.
8. Telephone and telegraph and its proportion of general expense.
9. Repairs and depreciation and charges for repairs and proportion of general expense.
10. Expense not otherwise charged.

Thus there is a detailed subdivision of accounts in each department, and the total expense of the store is found by adding the total expense of each department; therefore, it is impossible to determine such items as the total buying expense, selling expense, or occupancy charges.

In 1920 Mr. Fallon began to consider the advisability of modifying his system to show a functional classification of expenses. He obtained a copy of the system of the National Retail Dry Goods Association published in 1917. This system split the accounts into five main groups:

I. General or administrative expenses
II. Occupancy expenses
III. Publicity expenses
IV. Buying expenses
V. Selling expenses

Each one of these groups was in turn divided into 16 major or natural divisions of expense, as follows:

1. Payroll
2. Rentals
3. Advertising
4. Taxes
5. Supplies
6. Delivery
7. Unclassified
8. Traveling
9. Heat, light and power
10. Communication
11. Fixtures, repairs, and replacements
12. Insurance
13. Depreciation
14. Maintenance of buildings
15. Legal and credit fees
16. Contributions

Each of these natural divisions was in turn split up into a number of minor divisions; for example, under the General or Administrative Expense group the natural division of Payroll expense was divided into:

1. Salary of proprietor or chief executive and assistants
2. Office payroll
3. Superintendent and assistants
4. Telephone operators
5. Purchasing department
6. Employment department
7. Post-office
8. Education
9. Welfare and hospital
10. Information, telegraph, and ticket office

The other natural divisions of each of the five groups were subdivided in the same manner, so that there was a possibility of there being over 900 separate accounts.

Another classification of accounts obtained by Mr. Fallon was one which was adapted to the following profit and loss statement.

Profit and Loss Statement for Department Stores
for year ending..............................19........,

The following items are for the merchandise operations in owned sections only; they do not include receipts or expenses of leased sections, manufacturing departments, restaurant, or personal service departments.

Merchandise Statement:

Gross Sales Merchandise		....	
Returns and Allowances to Customers		....	
Net Sales of Merchandise			....
Net Inventory of Merchandise at Beginning of Year	....		
Purchases of Merchandise	....		
Inward Freight, Express, and Cartage	....		
Gross Cost of Merchandise Handled	....		
Cash Discounts Taken on Purchases of Merchandise	....		
Net Cost of Merchandise Handled	....		
Net Inventory of Merchandise at End of Year	....		
Net Cost of Merchandise Sold			....
Gross Profit on Merchandise			....

Expense Statement:

Salaries and Wages—Sales Force	....	
Alteration and Busheling (free)	....	
Miscellaneous Selling	....	
Total Selling		....
Salaries and Wages—Receiving, Marking, and Stockroom		....
Salaries and Wages—Advertising	....	
Newspaper Space	....	
Miscellaneous Advertising	....	
Total Advertising		....
Salaries and Wages—Delivery	....	
Packing Supplies	....	
Miscellaneous Delivery	....	
Total Delivery		....
Salaries and Wages—Buying	....	
Traveling—Buying	....	
Miscellaneous Buying	....	
Total Buying		....
Executive Salaries	....	
Salaries and Wages—Other Management	....	
Salaries and Wages—Office	....	
Office Supplies and Postage	....	
Miscellaneous Management	....	
Total Management		....
Salaries and Wages—Occupancy	....	
Supplies and Miscellaneous Occupancy Expense	....	

Rent
Heat, Light, and Power
Taxes (except on Buildings, Income and Profits)
Insurance (except on Buildings)
Repairs of Store Equipment
Depreciation of Store Equipment
Interest on Capital—Borrowed
Interest on Capital—Owned
Total Interest
Total Occupancy and Fixed Charges
Losses from Bad Debts
Total Expense
Net Profit (or Loss)

Net Gain Statement:

Sundry Revenue (Net)
Interest and Rentals Earned
Total Net Gain (or Loss)
Income and Excess Profits Taxes
Dividends, Sharing, or Withdrawals
Surplus (or Deficit) for the Year

Questions

1. Would either of the last two plans be better suited to Mr. Fallon's needs than his present system?
2. If so, which one do you recommend for his use?

Accounting 21

Lewis Department Store—
Proposed Accounting System For a Department Store

The National Retail Dry Goods Association has proposed a standard accounting system for department stores. The object of the plan is to make it possible for different stores to compare their expenses for such items as General Administrative Expense and Occupancy charges, and for detailed items. The proposed plan is intended to be adaptable to the requirements of the larger stores and also of smaller stores.

The Lewis Department Store has annual sales of $1,300,000. The controller of this store feels that his operating expenses are higher than they should be, but he is unable to compare figures with other stores because the accounting systems are not on the same basis. For this reason he is interested in the proposed plan of the National Retail Dry Goods Association, but he is not sure that it would be wise for his store to adopt it. This plan classifies all operating expenses into 14 major divisions, as follows:

1. Salaries and wages
2. Rentals
3. Advertising
4. Taxes
5. Interest
6. Supplies
7. Services purchased, such as light, heat, power and delivery
8. Unclassified
9. Traveling
10. Communication
11. Repairs
12. Insurance
13. Depreciation
14. Professional services

These 14 major divisions are in turn recast into 6 group classifications, which are again subdivided functionally as shown below:

(*Group Classification 1*)

ADMINISTRATIVE AND GENERAL

Executive offices   Accounting office   Credit office
Superintending   General

(*Group Classification 2*)

OCCUPANCY

Supervision   Operating   Housekeeping   Protection
General   Warehouse   Heat, light and power

(*Group Classification 3*)

PUBLICITY

General advertising   Windows   Circular advertising

(*Group Classification 4*)

BUYING

Interior decoration   Merchandise office   New York office
Foreign office   Receiving and marking   Stockroom

(*Group Classification 5*)

SELLING

General Store	Shipping Room
Adjustment	Garage and Auto
Mail and telephone orders	Wagon Delivery
Delivery	Special Delivery

In recasting the 14 major divisions it is obvious that a number of separate accounts must be kept for each subdivision of the five groups; for example, the following major division expense would be allocated to group 1—Administrative and General:

Executive offices—Divisions 1–6–8–9–10–14

The controller of the Lewis Department Store wishes to know which of the 14 major divisions of expense would apply to each subdivision.

Questions

1. How many accounts would he need to cover such a classification and distribution of operating expenses?
2. Is it advisable for the controller of the Lewis Department store to adopt this plan?

C. DISTRIBUTION OF EXPENSES

Accounting 22

Emmons & Company—Distribution of Expense to Departments

The report of a committee of the National Retail Dry Goods Association on Classification and Distribution of Expense in Retail Stores, published in 1917, reads in part as follows:

Distribution of Expense Departments

The distribution of *all* expenditures to selling departments is generally recognized as desirable, although some successful houses do not carry their department accounting beyond the determination of gross profits. Most stores, however, want to know whether or not departments are profit-making departments, and this can be determined only when *all* expenses are divided equably among *all* departments.

There is general agreement to the proposition that, whenever possible, expense should be charged directly to the department where it belongs; for example, the salary of a buyer and of salespeople concerned only with one department constitutes a direct charge to that department under buying expense and selling expense respectively. Likewise, the cost of a newspaper advertisement should be apportioned among the departments using it as a direct charge.

Distribution of all expenses should be made in the following manner:

1. To selling departments directly whenever possible.
2. In all other cases not covered by 1—To selling departments by one or more of the following methods:
   (*a*) Basis of sales or volume.
   (*b*) Basis of cost of work done when possible; otherwise same as (*a*).
   (*c*) Basis of average cost stock.
   (*d*) Basis of direct rental charge as fixed by (*h*).
   (*e*) Basis of total direct publicity charge (*f*) and (*g*).
   (*f*) Basis of direct window charge.
   (*g*) Basis of direct advertising charges.
   (*h*) Basis of arbitrary fixed values of space occupied.
   (*i*) Basis of space used.
   (*j*) Basis of cost purchases.
   (*k*) Basis of number of sales or sales tickets.
   (*l*) Basis of number of packages delivered and returned.

It has been the practice for a long time among retail stores to combine all the expenses not naturally and directly chargeable to the selling sections into one amount which was prorated among the sections either

upon a basis of sales or upon some other similar basis. It is astonishing how much of this so-called "store overhead" may be distributed to the selling departments equably and easily upon the basis here outlined and thus may be lifted out of the final sum which can be distributed only arbitrarily on the basis of sales or otherwise.

The Emmons & Company department store, with an annual sales volume of approximately $7,500,000, had followed the practice of charging all indirect expense items to departments on the basis of volume of sales.

Questions

1. Should this company have adopted the expense distribution plan as outlined in the report of the National Retail Dry Goods Association committee on Classification and Distribution of Expense?

2. In case the company had adopted this plan, on what basis should each of the following expense items have been prorated to selling departments?

Rent of store building.
Window rentals.
Rent of warehouse.
Advertising expense.
Taxes on store fixtures and equipment.
Taxes on merchandise.
Interest on borrowed capital.
Laundry and housekeeping supplies.
Delivery expense.
Fire insurance on merchandise.
Employers' liability insurance.
Depreciation of store and warehouse equipment and fixtures.
Heat, light, and power.
Trading stamps and redemption.
Executive salaries.
Office supplies.
Office salaries and wages.
Salaries and wages of receiving and stockroom employees.
Salaries and wages of engineers, electricians, carpenters, and elevator operators.
Wages of telephone operators.
Wages of office clerical detailed to selling departments.

Salaries and wages of managers and employees of personnel, education, and welfare departments.
Tags, tickets, labels, and other receiving room supplies.
Postage, telephone, telegraph, and cable charges.
Repairs of store and warehouse equipment and fixtures.
Losses from bad debts.
Professional, legal, and accounting service.
Collection costs.
Miscellaneous unclassified expense.

Accounting 23

Crocker-Porter Company—Prorating Expenses in General Merchandise Store

In a letter received by the Harvard Bureau of Business Research, Mr. J. G. Porter, of the Crocker-Porter Company, gave the following details about his business and submitted the profit and loss statement (see Form 5) on page 59, for the year ending December 31, 1919.

This store is located in a small town which is the trading center for villages within a radius of 10 or 15 miles. Two partners manage the business; one does all the buying and keeps track of the stock; Mr. Porter superintends the office work and looks after the advertising; both partners spend about one-half their time in selling merchandise. They employ one man for town deliveries, a bookkeeper, a cashier, who also helps on the books, and 10 salespersons who give all their time to selling. Separate records of the sales of various kinds of merchandise have been kept for some time. These showed during the year 1919 that 22.6% of the sales were of groceries; 24.2% dry goods, including ladies' ready-to-wear; 6.5% shoes; 1.6% millinery; 7.2% men's clothing; 3.5% furniture; 5.8% crockery and kitchenware; 12.1% hardware and cutlery; 10.2% feed and seed; and 6.3% farm

COPY
BUREAU OF BUSINESS RESEARCH GP
HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

No.........

OPERATING ACCOUNTS FOR RETAIL GROCERS

PROFIT AND LOSS STATEMENT, for year ending December 31 19 19

Gross Sales			591,541.13	
Returns and Allowances			2,326.52	
Net Sales				589,214.61
Net Inventory of Merchandise at Beginning of Year		77,935.85		
Purchases of Merchandise at Billed Cost		479,902.49		
Inward Freight and Cartage. Included in purchases				
Gross Cost of Merchandise Handled			557,838.34	
Cash Discounts Taken			4,002.89	
Net Cost of Merchandise Handled			553,835.45	
Net Inventory of Merchandise at End of Year			96,617.86	
Cost of Merchandise Sold				457,217.59
Gross Profit				131,997.02
Wages of Salesforce		36,542.65		
Advertising		1,524.37		
Wrappings and Other Selling Expense		1,601.12		
Total Selling Expense			39,668.14	
Wages of Delivery Force		4,964.18		
Other Delivery Expense		2,948.74		
Total Delivery Expense			7,912.92	
Buying, Management, and Office Salaries		15,647.23		
Office Supplies, Postage, and Other Management Expense		1,714.20		
Total Buying and Management Expense			17,361.43	
Rent		5,400.00		
Heat, Light, and Power		1,098.79		
Taxes (Except on buildings, income, and profits)		4,073.01		
Insurance (Except on buildings)		2,190.33		
Repairs of Store Equipment		678.24		
Depreciation of Store Equipment		1,698.46		
Interest on Capital — Borrowed	10,885.68			
Interest on Capital — Owned	7,322.00			
Total Interest		18,207.68		
Total Fixed Charges and Upkeep Expense			33,346.51	
Miscellaneous Expense			3,092.19	
Losses from Bad Debts			1,691.78	
Total Expense				103,072.97
Net Profit (or Loss)				28,924.05
Sundry Revenue (Net)				
Interest and Rentals Earned				
Total Net Gain (or Loss)				
Income and Excess Profits Taxes				
Dividends, Sharings, or Withdrawals				
Surplus (or Deficit) for the Year				

[OVER]

FORM No. 5. Crocker-Porter Profit and Loss Statement on Harvard Bureau's Form for Retail Grocers

implements. About 65% of all sales were charged, the average length of the credit granted being from four to six weeks. Nearly 20% of the sales were delivered by the company's own truck.

Question

Mr. Porter believes that the business is large enough to warrant keeping departmental accounts, and he has asked the Bureau for advice as to the number of departments he should operate and on what bases he should prorate his expenses by departments.

Accounting 24

C. N. Mathewson & Company—Distribution of Expenses in a Retail Jewelry Store

In 1916 the retail jewelry business of C. N. Mathewson & Company had reached a volume where it appeared desirable to departmentize it. The following departments, therefore, were organized: gold and platinum jewelry, diamonds and other precious stones, sterling silver, plated silver, clocks, watches, stationery, antiques, novelties, cut glass and china, house furnishings, specially ordered goods, repair department, and engraving department.

During the first year that this plan was in operation each of these departments was charged with the direct expense which it incurred, with the exception of boxes, bags, and cases, which were treated as a part of the general overhead expense for the whole store. The second year, however, it was planned to charge boxes, bags, and cases directly to departments, and to prorate the various indirect items of expense on the basis of the volume of sales of various departments.

In order to stimulate the interest of the department managers it was arranged to pay each of them a yearly bonus based on the percentage of net profit shown by their departments. At the end of six months the manager of the diamond and precious

stone department went to the head of the firm with the complaint that this method of paying a bonus was unfair, inasmuch as the diamond and precious stone department had a large volume of sales, but occupied a comparatively small space in the store. In his opinion this arrangement simply resulted in the diamond department standing a large part of the overhead expense for such a department as antiques, which occupied the entire second floor of the store building and showed an annual rate of stock turn of only 0.38. In his opinion each department ought to stand on its own feet. He therefore proposed that the following basis of proration should be used for overhead expenses:

Rent: Square feet of space occupied weighted according to the location.
Heat, light, and power: Same as rent.
Taxes: Average inventory.
Insurance: Same as taxes.
Repairs of store equipment: Same as rent.
Depreciation of store equipment: Same as rent.
Interest: Average inventory.
Losses from bad debts: Volume of credit business.

The management did not think that it would be fair to make any change before the system then in use had had a full year's trial. The question was brought up for discussion, however, at the next meeting of all department heads. At this meeting the manager of the antiques department maintained that it was unjust to charge rent or other overhead expense to departments on the basis of floor space occupied when the merchandise was so dissimilar in character as diamonds and antiques. The manager of the sterling and plated silver departments strongly endorsed this view. In his opinion, it was a great waste of time to try to apportion overhead expense to departments when it was not possible to get accurate figures for the direct expenses owing to the long-established practice of allowing the more experienced salesmen to sell all over the store. Although each salesman was required to turn in once a week a time card showing the time spent selling in each of the store's departments, the manager of the silver department said that this was largely a farce, that the salesmen merely guessed at the division of their time, and that in consequence the figures were, in his opinion, absolutely worthless. He said, furthermore, that the silver

department had to bear such a heavy burden in the way of free engraving that it was necessary for it to be helped out to a certain extent by other departments. The manager of the diamond department asked why the silver department was not dropped if it could not stand on its own feet and show an adequate profit. The answer was made that the silver department was necessary to the jewelry business, and that without it many customers would be lost; furthermore, it was pointed out that many department stores were only too anxious to sell silver goods. The manager of the diamond department then suggested that it was time for the jewelry stores in Buffalo to come to some agreement in regard to free engraving. He believed that engraving, in most cases, should be paid for by the customer. He pointed out that the books of the store showed that the cost of free engraving during the previous year had been $8,341.

The treasurer was in favor of any system which would help the management to know accurately the cost of selling various lines of merchandise. He thought that almost any plan for distributing the expense would be better than the arrangement which was then being used. He disagreed, however, with one feature of the plan suggested. It was his opinion that rent should be charged to departments on the basis of cubic feet of space occupied by showcases, weighted according to location. He pointed out that the silver department utilized a large amount of wall space for its display and that, therefore, the difference between the space occupied by the silver department and the space occupied by the diamond department was greater in cubic feet than it was in square feet.

Questions

1. What plan of distributing overhead expenses should have been adopted by the Mathewson Company?

2. Should the Mathewson Company have taken any steps to bring about an agreement among local jewelry stores to curtail free engraving?

Accounting 25

James A. Malden—Prorating of Delivery Expense to Departments

James A. Malden operates a small department store with annual sales of $831,000. This store has developed under Mr. Malden's guidance from a general store to a small department store carrying clothing, shoes, women's ready-to-wear, dry goods, hardware, groceries, a small line of jewelry, and novelties.

It has been the policy of this store in the past to prorate all overhead expenses to the various departments on an arbitrary percentage basis. The number of deliveries made from this store averages about 30% of the total number of sales, and consequently all delivery expense is prorated to departments on the basis of volume of sales, with the exception of the jewelry department, which has no deliveries.

The manager of the grocery department has been operating his section of the store on a cash basis, using a direct price appeal and making no deliveries of orders under $1. His deliveries, consequently, are small, and he has few returns. This manager objects to the present system of prorating delivery expense on the basis of sales, as he thinks it places an unfair burden of expense upon his department and prevents him from showing a good profit. Mr. Malden recently called a meeting of the department heads to talk over the policy of the store and to reach a decision as to what basis should be used for prorating delivery expense.

This raised the whole question of what constitutes delivery expense. Mr. Jackson, who is in charge of the receiving and delivery ends of the business, asserted that no charge should be made for delivery until the merchandise was actually aboard his wagons ready for the drivers to start.

On the other hand, the buyer for the women's ready-to-wear department maintained that delivery expense should include all charges incurred after the merchandise left the selling department.

The manager of the dry goods section said that delivery expense should be limited to include only such items as the actual wages of the drivers and the feed and care for the horses. He believed that rent, insurance, and taxes should not be included in delivery expenses, but should go into the general overhead.

In prorating this expense the manager of the grocery department proposed that charges should be made to each department depending upon the weight and size of the package, and distance that it was carried. The head of the delivery department, however, said that this system would be too complicated and costly to be of any real value, and that some rule-of-thumb method should be employed in distributing this expense.

Questions

1. What items should Mr. Malden include as delivery expense?
2. On what basis should delivery expense be prorated to each department?

Accounting 26

Norcross Company—Allocation of Rent

In a large western city a group of department store controllers holds a dinner twice a month. At this meeting the various problems of store management are discussed. The controller of the Norcross Company at a recent meeting brought up the question of the proper method of allocating rent.

The Norcross Company has recently moved to new quarters in a building which has just been completed. The departments are located as follows:

Basement.	House-engineering department, receiving, shipping, and delivery rooms, and the bargain basement.
1st Floor.	Small wares and dry goods.
2nd Floor.	Men's clothing, shoes, and a barber shop.
3rd Floor.	Infants' and children's goods and women's millinery.
4th Floor.	Women's wearing apparel and shoes.
5th Floor.	Furniture and house furnishings.
6th Floor.	Office and alteration rooms.
7th Floor.	Restaurant and personnel department.

This store operates a system of decentralized stockrooms with reserve stockrooms for each department on the same floor with that department.

One group of buyers asserts that all floors are not equally valuable and, that, therefore, the rent should not be distributed equally. They advocate the allocation of rent on the following basis:

Basement	15%	4th Floor	7½%
1st Floor	35%	5th Floor	5%
2nd Floor	20%	6th Floor	5%
3rd Floor	10%	7th Floor	2½%

The buyers in charge of departments on the first and second floors, however, object to this method of distributing rent, on the ground that, because of the good elevator service which this store maintains for its customers, it is as easy to go to the sixth floor as to the second or third. Since the elevators are located in banks near the main entrance, the customers can go at once to the departments that they are seeking without passing the sections on the lower floors. Consequently, the managers of the main-floor departments maintain that they have no great advantage over the other sections of the store. This group of buyers asks that rent charges be distributed to all departments on a square-foot basis, regardless of the floor on which they are located. The furniture buyer, however, says that such a scheme will rob him of his profits and might cause his department even to show a loss. He asserts that most furniture stores are located on less desirable streets where they pay a lower rate of rent than the Norcross Store, and that he will not be able to operate his department profitably unless he can keep his rent as low as that paid by competitors.

Question

On what basis should the Norcross Company distribute its rent expense?

Accounting 27

Panama Department Store—Prorating Rent to Non-Selling Departments

The Panama Department Store has an annual business of $5,934,000. For over a year the controller, Mr. McElwain, has been attempting to cut down the overhead expense wherever practicable, in an endeavor to make every department show a profit. He has employed a consulting accountant from the firm of Jackson & Black, who has made a careful study of the store. As regards rent, this accountant has found the following situation: An arbitrary rental charge for the windows is made to publicity; the total cost of outside buying offices is charged to buying; the rent and upkeep of garage, stables, and sub-delivery stations are grouped under delivery expense; and the rent for the store and its subsidiary warehouses and stockrooms is charged to occupancy. No other rental charges are made to the non-selling departments.

The layout of the store is as follows:

Basement.	Bargain basement, heating and power plant.
1st Floor.	Small wares, women's waists and neckwear, delivery and shipping rooms.
2nd Floor.	Men's furnishings, clothing, and shoes.
3rd Floor.	Women's suits, dresses and skirts.
4th Floor.	Children's clothing and toys; receiving and marking rooms.
5th Floor.	Administrative offices, manufacturing and alteration departments.
6th Floor.	Reserve stock, house furnishings, rugs and draperies.
7th Floor.	Furniture and kitchen utensils.
8th Floor.	Restaurant and restroom for customers.
9th Floor.	Personnel department, locker room, restaurant, and restroom for employees.

The Panama Store distributes rent expense to floors as follows:

Basement	15%	4th Floor	10%
1st Floor	35%	6th Floor	5%
2nd Floor	20%	7th Floor	5%
3rd Floor	10%	Total	100%

The amount of rent charged to each floor is further prorated to the various departments by weighting their locations on the basis of 50 for all departments facing on the main aisles, 30 for those sections on cross aisles, and 20 for certain departments cut off from the main routes of customers by partitions or jogs in the building, or having poor light.

With regard to the manufacturing departments, it has been the policy of the store to charge this expense as part of the cost of merchandise. The controller has found, however, that under these circumstances it is impossible to know whether this work can be done more profitably by the store itself or by outsiders. As he desires to have this department show whether it is earning a profit, he believes that not only should it bear all proper expenses including rent, but also that the merchandise should be charged out of it at the market figure.

The controller maintains that in order to operate the store successfully he must know exactly what it costs to run each department. Unless rent is included in the list of expenses, he holds that it is impossible to arrive at a true understanding of the situation. For example, the office manager has boasted frequently of the low operating expense of his division, but Mr. McElwain points out that the offices, which occupy half the fifth floor, are charged with no rent. Although the customers' restaurant has been reported as showing a profit from serving two meals a day, and the cafeteria for employees has apparently broken even, the controller again points out that neither of these service divisions has been charged with any rent. The receiving and marking rooms also are not charged with any rent. By including a charge for rent, Mr. McElwain proves that both restaurants have been run at an actual loss for the past five years, and that the offices have a higher operating expense than those of any other department store of similar size in that city.

The consulting accountant advises Mr. McElwain that the store should provide for the distribution of rent to all departments regardless of their functions. The office manager says that although the restaurants have receipts, neither of them is run in order to make a profit. Likewise, the administrative offices are operated for the benefit of the entire store. Consequently, no matter what system of accounting is used all

expenses are eventually distributed as overhead to be taken care of out of the profits of the selling departments. Therefore, he thinks that it is useless to try to prorate these expenses to any non-selling department. He also asks why there is not fully as good an argument for prorating all occupancy expenses to non-selling departments, instead of rent alone.

Questions

1. Should each department of the store be required to stand its proportionate share of the charges for rent?
2. Should any other overhead expenses be prorated to non-selling departments?
3. Would it be advisable to change the layout of this store?

D. RETAIL METHOD OF ACCOUNTING

Accounting 28

Baumworth Company—Retail Method of Inventory

On December 1, 1920, the Bureau of Internal Revenue made the following announcement:

Regulations 45 are hereby amended by inserting article 1588, reading as follows:

Art. 1588. Inventories of Retail Dry Goods Dealers.

(1) Retail dry goods dealers, who employ the "Retail Method," which is essentially a "cost" method of valuing inventories, will be permitted to make their returns upon that basis, provided (*a*) that the use of such method is designated upon the return; (*b*) that accurate accounts are kept; and (*c*) that such method be adhered to in subsequent years unless a change is authorized by the commissioner. The "Retail Method" consists in computing the "cost" of goods on hand from the "percentage" or purchase markup and the "retail value" of goods on hand.

(2) A taxpayer employing the "retail method" of valuing inventories shall maintain and present in permanent form, for the inspection of

Internal Revenue officers, the accounts and records of each year, together with a schedule of all mark-downs in each department, and such mark-downs shall not be included in the computation of the retail value of goods on hand, unless the goods so marked down have been actually sold.

Inventory Plan Suggested

(3) The following general plan of taking an inventory by the "retail method" will, it is believed, be found readily adaptable to the requirements of most retail dry goods dealers:

(*a*) The percentage of a purchase mark-up is computed as follows: The value of all merchandise, as received, is recorded by departments at two prices, (*a*) invoice cost plus transportation, and (*b*) original retail sale price. These cost and retail values are accumulated as recorded during the year. The total retail value minus the total cost value equals the total purchase mark-up, which, divided by the total retail value, gives the percentage of purchase mark-up.

(*b*) The retail value of goods on hand is computed as follows: A record is kept of (*a*) the amounts of all sales at retail, (*b*) any variations from the inventory prices of the preceding year of goods carried over from that year, and (*c*) any variations from the original sale prices, such as subsequent mark-ups or mark-downs (note paragraph 2). The retail value of the opening inventories plus the retail value of the purchases (plus or minus the algebraic sum of all subsequent mark-ups and mark-downs in the case of goods actually sold), minus the retail value of the sales, equals the retail value of the book inventory of goods on hand. Physical inventories by departments are taken of goods on hand at retail at the close of the taxable year and the retail value of the book inventory of goods on hand is adjusted accordingly.

(*c*) The cost of goods on hand is computed by subtracting from 100 per cent the percentage of purchase mark-up which gives the percentage of cost, and multiplying the retail value of goods on hand by such percentage of the cost.

The Baumworth Company, a department store in a large eastern city, doing approximately $5,600,000 worth of business annually, has received a copy of these regulations.

Question

Should this store adopt the retail method of inventory in accordance with the regulations as they stand in this ruling?

Accounting 29

P. J. Carney, Inc.—Retail Method of Inventory

P. J. Carney, Inc., operates a department store doing an annual business of approximately $8,000,000. During the year 1920 sales were $7,326,099, a volume slightly lower than normal. About 80% of the store's business in that year was done by the men's and women's ready-to-wear departments, the millinery department, the dry goods department, and the small wares department. In addition, the store carried house furnishings, furniture, and leather goods. The cost method of inventory had always been used.

The retail method of taking inventory has been laid down by the Government in Treasury Decision 3058, issued August 16, 1920, and in a letter to the National Retail Dry Goods Association relative thereto sent from the Treasury Department January 21, 1921.* In April, 1921, the controller was supplied with a copy of this decision and explanatory letter and they were read before the Board of Directors, who instructed the controller to develop a formula for computing the store's inventory in accord with the Government's requirements.

Question

What formula should the controller have devised to meet these requirements?

* See copy of decision and letter, page 71.

* (T. D. 3058)

INCOME TAX

Section 203, Revenue Act of 1918: Inventories of Retail Dry Goods Dealers

TREASURY DEPARTMENT

Office of Commissioner of Internal Revenue
Washington, D. C.

To Collectors of Internal Revenue and Others Concerned:

Regulations 45 are hereby amended by inserting Article 1588, reading as follows:

ARTICLE 1588. *Inventories of Retail Dry Goods Dealers.* (1) Retail dry goods dealers who employ the "retail method," which is essentially a "cost" method of valuing inventories, will be permitted to make their returns upon that basis, provided (*a*) that the use of such method is designated upon the return, (*b*) that accurate accounts are kept, and (*c*) that such method be adhered to in subsequent years, unless a change is authorized by the Commissioner. The "retail method" consists in computing the "cost" of goods on hand from the "percentage of purchase mark-up" and the "retail value" of goods on hand.

(2) A taxpayer employing the "retail method" of valuing inventories shall maintain and preserve in permanent form, for the inspection of internal revenue officers, the accounts and records of each year, together with a schedule of all mark-downs in each department, and such mark-downs shall not be included in the computation of the retail value of goods on hand unless the goods so marked down have been actually sold.

(3) The following general plan of taking an inventory by the "retail method" will, it is believed, be found readily adaptable to the requirements of most retail dry goods dealers:

(*A*) *The percentage of purchase mark-up* is computed as follows: The value of all merchandise, as received, is recorded by departments at two prices, (*a*) invoice cost plus transportation, and (*b*) original retail sale price. These cost and retail values are accumulated as recorded during the year. The total retail value minus the total cost value equals the total purchase mark-up, which divided by the total retail value gives the percentage of purchase mark-up.

(*B*) *The retail value of goods on hand* is computed as follows: A record is kept of (*a*) the amounts of all sales at retail, (*b*) any variations from the inventory prices of the preceding year of goods carried over from that year, and (*c*) any variations from the original sale prices, such as subsequent mark-ups or mark-downs (note paragraph 2). The retail value of the opening inventories plus the retail value of the purchases (plus or minus the algebraic sum of all subsequent mark-ups,

and mark-downs in the case of goods actually sold) minus the retail value of the sales equals the retail value of the book inventory of goods on hand. Physical inventories by departments are taken of goods on hand at retail at the close of the taxable year, and the retail value of the book inventory of goods on hand is adjusted accordingly.

(*C*) *The cost of goods on hand* is computed by subtracting from one hundred per cent, the percentage of purchase mark-up, which gives the percentage of cost, and multiplying the retail value of goods on hand by such percentage of cost.

(Signed) Paul F. Myers
Acting Commissioner of Internal Revenue

Approved: August 16, 1920
S. P. Gilbert, Jr.
Acting Secretary of the Treasury

TREASURY DEPARTMENT
Washington, January 21, 1921

National Retail Dry Goods Association
200 Fifth Avenue
New York, N. Y.

Sirs: Reference is made to your letter of January 13, 1921, relative to Treasury Decision No. 3058, issued August 16, 1920 (Article 1588—Inventories of Retail Dry Goods Dealers), asking for further details as to proper procedure within the meaning of the Regulations.

Your questions are taken up and answered in the order you have presented them:

1. The use of the retail method is by the decision confined to retail dry goods dealers. Other organizations and individual stores who conduct retail establishments and follow essentially the retail method of dry goods stores, may be allowed this method upon application to the Bureau of Internal Revenue.

2. *The designation of the method as a "cost" method.* It was not intended that the apparent limitation should be inflexible. It is recognized that on a constant or rising market the retail method is approximately a "cost" basis and that on a falling market it results in a reduction to "cost or market, whichever is lower."

3. *Preserving records.* There must be a permanent form of recording by departments, purchases showing the firm name, date of invoice, invoice cost, and retail sales price. A permanent record must be kept of the accumulation of all department purchases, mark-downs, sales, stocks, etc. It must be borne in mind that under no circumstances will arbitrary standard percentages of purchase

mark-up be allowed in the determination of the "cost" or "cost or market" value of retail inventories, but that such percentage must be the purchase mark-up percentage disclosed by the department records of the fiscal period for which the return is made.

4. *Opening Inventory.* In section "A" the words "the value of all merchandise as received" is inclusive of inventory at the beginning of the period.

   The purchase mark-up must be computed as follows:

   Cost: Inventory at cost at beginning
   Purchases at cost
   Transportation

   Retail: Inventory at sales price
   Purchases at sales price

5. *Appreciation in retail values of goods on hand.* Within the meaning of the Article, it is proper to include as a part of "original retail sales price" the actual increase in the original sales price which has been brought about by market conditions or by incorrect pricing when the goods were put into stock.

   For the convenience of the examining officer, a special form should be provided; complete information by items of the increase from the original retail must be shown; reference, if possible, must be made to the original invoice; entry and the reason for the increase freely explained. All such amended retail increases must be approved by the buyer of the department and merchandise manager or other responsible official and they should be so filed that quick reference to them may be made. Entry of such increased retail properly belongs in department purchase books, although it may be set up as a separate item in the accumulated records of the department. The same forms that are used to record such price increases should not be used for mark-downs and in no instance will a store be allowed to include as retail increases a mark-up which has been taken as a correction or cancelation of a mark-down; such mark-up must be regarded and treated in all cases as opposite to mark-down.

6. *Proper mark-downs substantiated by record of facts will be permitted.* The decision is not intended to disturb the procedure in stores which have properly handled mark-downs, but instances where arbitrary reductions from retail values have been made because of the desire to provide for depreciation and obsolescence with no actual offering to the public of the goods on which the mark-downs were claimed, cannot be recognized. Under no circumstances will a store be allowed to depreciate its stock in any way except by the offering of it to its customers at such reduced prices. The procedure of stores in regard to mark-downs will be deemed proper if in any fiscal year or period of that year the goods so

marked down are in proportion to current sales, to stock on hand, to mark-down of preceding months of preceding year, or if evidence can be submitted as to market changes which have forced a reduction in retail prices necessary to bring about a parity with the selling price of the same goods which have been purchased or could be purchased at a reduced cost.

In conclusion it should be noted that a store which has employed its retail method in the past, may now specify in the return that such method is used, as a basis on valuing inventories, regardless of the fact that in past years it reported on a "cost" or "cost or market whichever is lower" basis. However, the use of the retail method will not be recognized unless it has been correctly followed throughout the entire fiscal or calendar year period for which the return is made.

Respectfully,
(Signed) Wm. M. Williams
Commissioner

Accounting 30

The W. D. Kennedy Co.—Application of Retail Method of Inventory

The W. D. Kennedy Company had operated a small women's specialty store on a cost method of inventory, for many years. Mr. Kennedy, the owner, however, had heard a great deal about the Retail Method of Inventory and installed it in his business. At the end of the year 1919 Mr. Kennedy took his inventory at both cost and retail and during the year 1920 kept account of all mark-ups on purchases. His basis book for 1920 was as follows:

	Cost	Retail	% M/U	% M/U	% Cost
Opening Inventory	60,000	75,000	15,000	20 %	80 %
Purchases	70,000	100,000	30,000	30 %	70 %
Total	130,000	175,000	45,000	25.7%	74.3%

Secondary mark-ups and mark-downs are excluded from this calculation except where secondary mark-up is mere correction of marking room error when goods came in.

The sales for the year 1920 amounted to $115,000. After the goods had been marked he had taken subsequent mark-ups of $15,000 and subsequent mark-downs of $5,000. At the end

of the year 1920 he took a physical inventory at retail figures, which amounted to $65,000.

Questions

1. What was the stock shortage for year 1920 in the W. D. Kennedy Store?
2. What was the cost figure of the closing inventory for 1920?
3. What were his opening inventory figures for his basis book for the year 1921?

Accounting 31

Milton J. Bigelow & Co.—Retail Method of Inventory

Milton J. Bigelow & Company owns a well-known department store in a leading retail district. For the three years 1918, 1919, and 1920 sales have ranged from $10,000,000 to $12,000,000 a year. Up to June 1, 1921, sales were at the rate of $10,325,000 per annum. The store carries a full line of department store merchandise, but the management is especially interested in developing the ladies' ready-to-wear department and the style line in general.

In 1921 the controller convinced the board of directors that the store should change from the cost to the retail method of inventory because of the greater ease in computing day-to-day stocks and in taking the semi-annual physical inventories. At the regular meeting of the directors held the first week in June, 1921, it was voted to change to the retail plan at the regular inventory time the following January. The controller was directed to work out a set of forms for keeping the inventory at retail. After studying a number of different forms and corresponding with the controllers of various stores which were operating on the retail method of inventory, the controller selected three plans among which to choose.

METHOD A

		February, 1921		March, 1921	
		Cost	Retail	Cost	Retail
Opening Inventory	(1)	2000	3000		
Purchases (Net)	(2)	920	1500		
Discounts Secured	(3)	80			
Bal. to Make 10%	(4)	20			
Freight & Express (in)	(5)	10			
Transfers	(6)				
Workroom	(7)				
Petty Cash	(8)				
Retail Adjustment	(9)				
Total	(10)	3030	4500 (32.7)		
Mark-Ups	(11)				
Mark-Downs	(12)		200		
Shortage Allowance	(13)				
Sales	(14)	1011	1300		
Closing Inventory	(15)	2019	3000 (32.7)		

Line 1. Opening inventory at both cost and retail. This item is brought forward from line 15 of the preceding month.

Line 2. Purchases (net) is the invoice price less all discounts taken, including trade discounts and cash discounts.

Line 3. This item plus line 2 equals the face of the invoice.

Line 4. This item is the balance required to make 10% of the face of the invoice. For instance, if the face of the invoice is $1,000, and the total discounts secured are 8%, or $80, this item would read $20, the amount in addition to the $80 required to make $100, or 10% of the face of the invoice.

Line 5. Inward freight, express, and cartage.

Line 6. Transfers from other departments entered at retail only.

Line 7. Charges for work done in the work rooms entered at cost.

Line 8. Petty Cash. This item entered at retail shows purchases by the shopping bureau, special accommodation purchases, and similar purchases from petty cash.

Line 9. Retail Adjustment. This item is provided to allow for changes in the retail figure of an invoice between the time that the order was placed or the time that the goods are received, and the time that the goods go on sale. This item never includes mark-downs taken after the goods are once put on sale.

Line 11. Mark-ups taken subsequent to the time the goods are placed on sale.

Line 12. Mark-downs taken subsequent to the time goods are placed on sale.

Line 13. Shortage allowance.

Line 14. Sales, shown at retail. The cost figure for sales is computed by deducting the cost item, line 15, from cost item, line 10.

Line 15. Closing inventory. The retail item is computed by deducting the sum of lines 11 to 14 inclusive from line 10. The cost item is computed by applying to the retail item, line 15, the same ratio as exists between the cost and retail items of line 10.

METHOD B

Purchases			Purchase Basis					
Cost	Retail	%	Cost	Retail	%	Dis-counts	Mark-Downs	Stock Short-ages
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
*OI 52511	*OI 86302		*OI 52511	*OI 86302				
Pur. 166391	274536		166391	274536				
Dis. 3200								
Frt. 154			154					
222256	360838		219056	360838	39.3		3543	2000

*Opening Inventory

Resultant Basis				Stock			
Cost	Retail	%	Sales	Cost	Retail	Turnover	
(10)	(11)°	(12)	(13)	(14)	(15)	(16)	
*OI 52511	°*OI 86302						
166545	268993						
219056	355295		233621	73856	121674	145200	

Columns 1 and 2. The first entry in these columns is for the opening inventory at both cost and retail. Purchases are

entered at the face of the invoice. Inward freight, express, and cartage are added, as is the balance required to make 10% discount. Departmental transfers are entered in the retail column. Both these columns are totaled and balanced monthly.

Columns 4 and 5. As in columns 1 and 2 the first entry is the opening inventory at both cost and retail. Subsequent entries are purchases at face of invoice and inward freight, express, and cartage. Mark-downs are not shown. Neither are discounts charged to the department. Market appreciation may be entered as a mark-up in the retail column.

Column 6. Apply this percentage to column 15 and it gives the replacement value of column 14. The percentage in column 12 if applied to column 15 will not give replacement value.

Column 7. This column is for discounts given on sales such as those to other stores, and to institutions, dressmakers, clergy, and students. It does not include discounts on purchases.

Column 8. Mark-downs taken subsequent to the time goods are placed on sale.

Column 9. These are retail stock shortages.

Columns 7, 8, 9. These columns are totaled monthly and are also footed to show the year to date.

Column 10. The extension here is the total of all figures which enter into the cost of purchases. The item is brought forward from column 4.

Column 11. The extension here is the purchases at retail less columns 7, 8, 9. This figure (i. e. column 11) less sales equals retail value of stock on hand.

Columns 10 and 11. No monthly totals are taken in these columns; but figures are allowed to accumulate for the year.

Column 13. Monthly and seasonal totals are shown, but the figures are also carried cumulative to date, so that by the deduction of column 13 from column 11 the stock on hand can be secured at any time.

Column 14. This item is computed from column 15 by using the percentage shown in column 6.

Column 15. This entry is column 11 less column 13.

Column 16. This "Turnover" figure is the cost of sales arrived at monthly by deducting column 14 from column 13.

Method C is self-explanatory.

METHOD C

	(1) Cost	(2) Retail	(3) Mark-up	(4) % of Mark-up
1. Opening Inventory (lines 9 and 10 of preceding period)	. . . .	. . . .	. . . .	. . . .
2. Purchases	. . . .	. . . .	. . . .	. . . .
3. Freight, Express and Cartage, Inward	. . . .	000.	000.	000.
4. Additional Mark-Up, less additional Mark-Up Cancelations . .	000.	. . . .	000.	000.
5. Total of Inventory, plus Additions	. . .	. . . .	. . . .	. . . .
6. Net Sales	000.	. . . .	000.	000.
7. Mark-Downs, less Mark-Down Cancelations	000.	. . . .	000.	000.
8. Total Retail Deduction (sum of items 6 and 7)	000.	. . . .	000.	000.
9. Resultant Retail Inventory (Retail Inventory on line 5, Column 2, minus item 8)	000.	. . . .	000.	000.
10. Calculation of Cost Percentage:				
(*a*) Total Percentage 100%				
(*b*) Percentage of Mark-Up (line 5, Col. 4) . . . . %				
(*c*) Percentage of Cost [(*a*) minus (*b*)] . . . . %				
11. Cost Inventory (item 10 (*c*) applied to item 9)	. . . .	000.	000.	000.
12. Resultant Mark-Up and Percentage (item 9, minus item 11) . .	000.	000.	. . . .	. . . .
13. Gross Cost of Merchandise Sold (difference between Cost Inventories on lines 5 and 11)	. . . .	000.	000.	000.

Questions

1. Which of these methods should the controller adopt?
2. What is the difference between the percentages of mark-up arrived at by the Method A, Method B, col. 3, Method B, col. 6, and Method C?

Accounting 32

Eastman, Libbey & Eastman—Rate of Stock-Turn

Because of the difficulties encountered in taking its inventory accurately on a cost basis, the board of managers of the Eastman, Libbey & Eastman department store decided somewhat over a year ago that a change in method should be made. Different lots of the same article, for example, were frequently purchased at different prices, and it was easy for the clerks taking the inventory to make a mistake in putting down the cost of a consignment of merchandise. In this store, it had been the policy to mark all articles with the selling price and also to give the cost in small code letters at the top of each tag. In decoding this cost, the inventory clerks were likely to make errors.

After a study of the methods of taking inventory at retail in some of the Chicago stores, the managers of Eastman, Libbey & Eastman decided to install the retail method of inventory. An accountant who specialized in department store work was employed to install the system, draw up the proper records to be kept, and instruct the store's employees in the use of the new system.

After five weeks' work, the store was placed upon a retail basis of taking inventory; the buyers, bookkeepers, and inventory crews had been instructed in the proper methods of doing the work, and the accountant had turned over the actual working of the system to the employees of the store.

At the end of the fiscal year the inventory was taken at both cost and retail for the purpose of enabling the executives of the store to compare the accuracy of the new method with that of the one used previously. After the board of managers had

satisfied themselves of the accuracy of the figures, which are listed below, they asked the head bookkeeper to compute the rate of stock-turn from these figures at cost, derived cost, and retail prices.

The head bookkeeper submitted the figures listed below which he had checked several times, but he was unable to give an explanation as to why the figures for stock-turn should be different when figured by cost, derived cost, and retail.

COST FIGURES

Inventory at beginning of year	$1,071,156.50
Depreciation on inventory at beginning of year	107,115.65
Net purchases	4,012,451.35
Inward freight, express and cartage	8,490.89
Inventory at end of year	744,657.89
Depreciation on inventory at end of year	74,465.79

RETAIL FIGURES

Gross sales	$8,004,089.52
Returns and Allowances to customers	1,138,528.81
Inventory at beginning of year	1,338,945.66
Net purchases	6,701,570.40
Inventory at end of year	992,877.18
Mark-downs	182,078.17

DERIVED COST FIGURES

Inventory at derived cost at end of year	$616,179.58

RATE OF STOCK-TURN FIGURED AT COST

Inventory beginning of year	$1,071,156.50	
Depreciation of inventory beginning of year	107,115.65	
Net inventory beginning of year		$ 964,040.85
Net purchases of merchandise	$4,012,451.35	
Inward freight and cartage	8,490.89	
Cost of merchandise purchased		4,020,942.24
Cost of merchandise handled		$4,984,983.09
Inventory end of year	$ 744,657.89	
Depreciation on inventory end of year	74,465.79	
Net inventory end of year		670,192.10
Cost of merchandise sold		$4,314,790.99

[(Inv. beginning of year) $964,040.85 + (Inv. end of year) $670,192.10 ÷ 2 = $817,116.48 Ave. Inv.]

$$\frac{\text{(Cost of Merchandise Sold) } \$4{,}314{,}790.99}{\text{Average Inventory } \quad 817{,}116.48} = 5.28 \text{ Rate of stock-turn}$$

Rate of Stock-Turn Figured at Retail

Gross sales	$8,004,089.52
Returns and allowances to customers	1,138,528.81
Net sales	$6,865,560.71

[(Inv. beginning of year) $1,338,945 .66 + (Inv. end of year) $992,877 .18 ÷ 2 = $1,165,911 .42 Ave. Inv.]

$$\frac{\text{(Net Sales) \$6,865,560.71}}{\text{(Ave. Inv.) \$1,165,911.42}} = 5.89 \text{ Rate of stock-turn}$$

Rate of Stock-Turn Figured at Derived Cost

	Cost	Retail
Net inventory beginning of year	$ 964,040 .85	$1,338,945.66
Net purchases	4,012,451 .35	6,701,570.40
Inward freight and cartage	8,490 .89	....
Total amount of merchandise handled	$4,984,983 .09	$8,040,516.06

$$\frac{\text{(Total merchandise handled at cost) \$4,984,983.09}}{\text{(Total merchandise handled at retail) \$8,040,516.06}} = 62.00\%$$

(Inventory end of year at retail) $992,877 .18 × 62% = $615,583 .85 Inventory at end of year at derived cost.

Total amount of merchandise handled at cost	$4,884,983.09
Inventory at end of year at derived cost	615,583.85
Derived cost of merchandise sold	$4,359,399.24

[(Inventory cost beginning of year) $964,040.85 + (Inv. at derived cost end of year.) $615,583.85] ÷ 2 = $789,812.35 (Average inventory at derived cost)

$$\frac{\text{[(Derived cost of merchandise sold) \$4,369,399.24}}{\text{(Average Inventory at derived cost) \$789,812.35]}} = 5.53 \text{ Rate of stock-turn}$$

The board of managers then consulted the public accountant, who told them that the figures for the rate of stock-turn were different because the bases on which they were figured were different. He stated that there was no definite relation which always existed between the cost of the merchandise sold and the net sales. He also asserted that the ratio between the cost and retail figures of the opening inventory was not the same as the ratio between the cost and retail figures of the goods purchased, or the ratio between the cost and retail figures of the closing inventory. Consequently, even if there were a relation between the cost of the merchandise sold and the net sales the difference in these ratios would prevent the stock-turn figures

of the three methods from being the same. As for the difference between the cost and the derived cost figures, the accountant said that the percentage by which the derived cost figure was secured from the inventory at retail was based on a weighted average of all the goods handled and not on the actual goods left in stock.

Questions

1. Do you agree with the accountant as to the reasons for the difference in the stock-turn figures?
2. If not, what are the reasons which cause this difference?

Accounting 33

Frazier & Davis—Loading

Frazier and Davis use the retail method of inventory in their department store. Previous to the passing of the income tax law, this store required all buyers to secure a 7% cash discount on purchases, and if a buyer did not secure 7%, the difference between what he did secure and 7% was charged against him as an addition to the cost of the merchandise purchased. In case the buyer secured more than the required discount, the excess over 7% was set up as a credit against the amount of discount which had been charged to him. In figuring the amount of discount to be charged or credited to an invoice, the date on which the bill was due was not considered. Merchandise was always charged to the departments at the "loaded" figure, or at the face of the invoice if the terms were better than 7%. Mark-up was taken on the figure at which the goods were charged into the department.

When the income tax law was passed and it became clear that increases in inventory were to be treated as profits in determining

the amount of tax due, one of a firm of accountants which was called in to prepare the income tax statement pointed out that the store's method of "loading" exaggerated all increases in inventory and thus caused the payment of extra taxes.

In computing the percentage of mark-up which it applied to the closing inventory at retail to get the closing inventory at cost, the store added to the loaded cost of opening inventory, the billed cost of purchases, the discount loaded, and the inward freight, express, and cartage; and to the opening inventory at retail it added the retail of purchases; the percentage of mark-up being the difference between the total at retail and the total at cost divided by the total at retail. Then at the close of the year the algebraic sum of sales, mark-ups, and mark-downs was deducted from the total at retail, the first and last of these three items being "plus" items. This result was the closing book inventory at retail. To this closing inventory at retail the percentage obtained above was applied to get the closing inventory at cost. Thus if the closing inventory was greater than the opening inventory, it would be greater by the amount of the loading and the amount of billed cost included in that increase. Since the store was loaded at 7%, 6.54% of all increases in inventory (at cost) represented loading, while only 93.46% represented actual billed cost of additions to stock. Thus whenever the store's inventory increased it showed its income tax statement 6.54% of this increase as net profit.

Since the store was doing a business of about $15,000,000 a year in 1918 and was increasing its sales and extending its stocks rapidly, the annual increase in inventory was in the neighborhood of $65,000. This meant according to the accountant that the store's net profits were exaggerated, by "loading," approximately $4,250 a year. The tax rate for this store was 12% of net profits in 1918 and 10% in subsequent years. Thus in 1918 the store's method of "loading" was costing it $510 in additional taxes, and in subsequent years $425 a year. The store's reasons for "loading" were the same as those given in the case of the Johnsberry & Horton Company, described on the opposite page.

Questions

1. Were the statements of the accountants correct?
2. Were the benefits secured by the "loading" worth the cost?

Accounting 34

Johnsberry and Horton—Loading

The department store operated by Johnsberry and Horton is run on the cost method of inventory with stock-taking semi-annually. In this store all goods are charged to the departments at prices which, regardless of the terms on which the goods have been purchased, places them all on a 6% off—30-day basis. This method of billing merchandise to the departments makes it possible for buyers to figure mark-up on various orders on a definite and fixed basis. Thus, all cost prices within a department are properly comparable. In the second place, putting all invoices on the basis of the same terms makes it possible to compare the percentages of mark-up secured by departments. Third, if a buyer secures less than 6% off—30 days, his cost of merchandise is increased or loaded with the amount of discount which he did not get, but should have had. By thus increasing the cost of the merchandise, the mark-up is slightly reduced; and hence the buyer is forced to work harder in order to secure what is considered a normal percentage of mark-up for his department. Finally, by adding in this discount as a part of the cost of merchandise the store is building up a secret reserve and thus protecting its profits. A department may make no net trading profit and still be profitable because of the discount which that department has secured.

In charging each department with the amount by which it fails to meet the required terms on an invoice, and in crediting the department for the amount by which it exceeds the required terms on any invoice, the following form is used:

Ext. Disc. and Int.	Date Inv.	Name		Terms	Added Disc. and Int.	Daily Cost	Agg. Cost	Profit	Selling
......	May 1	McElwain Co.	297	1/10	.31	5.40		2.85	8.25
......	5	J. P. Jones	298	net 30	8.14	127.60		62.80	190.40
1.01	6	R. P. Smith	299	8/20	....	55.00		22.50	77.50
......	8	O'Callahan, Inc.	300	3/60	2.10	78.92		40.04	118.96
......	11	Key and Morton	301	6/30	....	137.46		70.00	207.46
					10.55	404.38		198.19	
						10.55		10.55	
						414.93		187.64	602.57

To indicate how charges are made, five invoices have been entered in the form. In the column headed "terms" is entered the terms secured on the invoice in question. If these terms are less than 6/30, there is entered in the column headed "added

discount and interest" the amount by which the terms secured fall below the terms required. If the terms secured are better than 6/30, a proportionate credit is made in the column headed "extra discount and interest." Entries in the column "daily cost" are the face of the invoice. The column headed "aggregate cost" is for totals and is provided because the adding machine equipment at the store puts the totals in a column at the right of the column in which it lists the items. In the column headed "selling" is entered the aggregate retail price originally marked on the goods included in the invoice. In the column headed "profit" is entered the difference between the selling and the invoice cost, i. e., the figures entered in the column headed "daily cost." At the end of the period the "daily cost" column is totaled and to it is added the total of the "added interest" column. This same amount of added interest is deducted from the total of the "profit" column, and then the new total for the "daily cost" column and the "profit" column, should equal the total of the "selling" column. In computing the net profits of the department for a period the total of the "extra discount and interest" column is added to the total of the "added discount and interest" column and to the final total of the "profit" column.

In computing the amount of interest to be added to an invoice or to be credited to the department because of unusually favorable terms on the invoice, the store multiplies the face of the invoice by a computing factor, the size of which measures the variation of the terms secured from the terms required. Also, in computing these factors the store usually arranges them so that when multiplied by the face of the invoice, they will give an amount which, added to the face of the invoice, will give a total of which the net cost of the invoice is 94%. For example, no correction at all is applied to an invoice whose terms are 6/30. If an invoice is net 30 days, then the face of that invoice is multiplied by 6.383 and the product added in the added interest column. This factor is computed by dividing 100 by 94. If a bill is net 60 days, it is clear that the buyer has failed to get the discount required, but he has secured for the firm the use of an amount of money equal to the face of the invoice for 30 days longer than was required. Thus he has really secured a discount equal to the interest on the amount of the invoice for

30 days at a market rate of 6%; hence, on this invoice the buyer secured only one-half of one per cent on the basis of payment in 30 days instead of 6% on the basis of payment in 30 days. To figure the factor to be applied to this invoice, the store deducts from 100 one-half of one per cent, or .0005. The remainder, .995 is divided by 94 to get the factor.

One further example may be cited. In computing the factor to be applied to an invoice bearing the terms 4/10, as in computing the factors to be applied in the case of invoices net 30 days and net 60 days, the store first places the bill on a net basis and then adds or subtracts a per cent to allow for the interest which the buyer has earned for the store, or cost to be extended by the store. In computing the factor for 4/10 invoices, the store deducts 4% from 100, thus getting 96. This is the net cost of the invoice. But in addition to securing only a 4% discount, the buyer got only 10 days' time instead of 30 days required; hence, he failed to get 20 days' time and thus saddled upon the store the interest on the face of the invoice for 20 days at 6%. Hence to the 96 the store adds .00333, the percentage of interest at 6% per annum for 20 days. The sum .96333 is then divided by 94 to get a factor.

For computing the factors to be applied in figuring the extra interest on invoices whose terms are better than 6/30, a simpler method can be employed. Take for example a bill whose terms are 8/60 and which is to be placed upon a 6/30 basis; the store deducts 6 from 8 to get 2 and 30 from 60 to get 30. The buyer thus has secured for the store 2% discount and interest for 30 days more than was required. Interest for 30 days at 6% per annum is one-half of one per cent. Thus the buyer is credited with extra interest equal to the face of the invoice times $2\frac{1}{2}$%. If the buyer has secured 8/20 terms on that invoice, he would have secured 2% discount more than required, but he would not have secured the full time required. Thus to get the factor to be applied in computing the extra interest on this invoice there is deducted from 2% the interest at 6% for 10 days, or 1/6 of one per cent. The factor to be applied is 1 5/6%.

Questions

1. Does the method of loading used by the Johnsberry and Horton store secure for that store all of the four advantages which it is intended to secure?

2. What factors should be used in computing the added interest or the extra interest for invoices having the following items: 1/20, 2/50, 3/30, 6180, 10/10?

3. Would the factor be the same for invoices bearing terms of 6/80 and 7/20, 3/60 and $3\frac{1}{2}/30$?

4. Why is the simpler method of calculation possible in the case of factors to be applied to invoices bearing more than the required terms?

Solution

No solution for question.

Answers for the second question are as follows:

(*a*) Factor to be applied to 1/20 invoices is 5.496. This factor is computed as follows:

1.00 (face of invoice)
.01 (discount) (deducted)
.99 (net)
.00166 (interest) (added)
.99166 (net including interest)
$.99166 \div .94 = 5.496$

(*b*) Factor to be applied to 2/50 invoices is 3.901. This factor is computed as follows:

1.00
.02
.98
.00333
.97667
$.97667 \div .94 = 3.901$

(*c*) Factor to be applied to 3/30 invoice is 3.191. This factor is computed as follows:

1.00
.03
.97

No interest involved.

$.97 \div .94 = 3.191$

(*d*) Factor to be applied to 6/80 invoices is 5/6 of 1%. This factor is computed as follows:

6/80 – 6/30 – 0/50. Interest for 50 days at 6% per annum is 5/6 of 1%.

(*e*) Factor to be applied to 10/10 invoices is 3 2/3%. This factor is computed as follows:

10/10 – 6/30 = 9/70 – 6/30 = 3/40. Interest for 40 days at 6% per annum is 2/3 of 1%. Therefore, factor is 3 /23%.

Answer to the third question is yes, in both cases.

In the fourth question the difference in method is possible because in working with extra interest we do not need to work from a part to the whole. Thus we do not need to get the net and then divide by 94 in order to get the whole of which the net is a part.

E. GENERAL ACCOUNTING PROBLEMS

Accounting 35

J. J. McMahon, Inc.—Expense Budget

The firm of J. J. McMahon, Inc., includes Mr. J. J. McMahon, president, and his brother, Mr. W. McMahon, treasurer and controller. In 1910, these two brothers started in business with a small dry goods store. Since then the business has grown until now the brothers own a complete department store doing a business of from $10,000,000 to $12,000,000 a year. Until 1920 they were busy with merchandise and financial problems, and other problems of expansion, so that they were unable to give much consideration to the refinements of management. In that year the organization which the brothers had built up began to take over the details of operation, and they themselves were free to work out improvements. First, in order to secure more careful forecasting of business, they installed a set of forms on which were entered planned sales, mark-up, purchases, inventories, and other data. This system Mr. J. J. McMahon adopted bodily from one which he had found in a store owned by a friend in Seattle. Having provided a method of planning their merchandising, the brothers turned their attention to the planning of expense, which they thought was next in importance. The store had no expense budget in operation, and the brothers thought that

a plan similar to the one installed for controlling sales would give them a much needed control over expense. Mr. W. McMahon accordingly began an investigation to determine what system other stores used to achieve this end. He gathered a number of plans among which was one used by Barstell's, a department store somewhat larger than McMahon's. This plan Mr. McMahon decided was the best of those which he had gathered.

By this system expenses were planned for each month for one season in advance and these planned figures were recorded on two forms in each department. One form was used for figures relating to salary expense and the other form for all other expenses.

The form for the salary expense forecast was printed on both sides of a 9x11 card, the obverse providing space for the figures for the first half of the season and the reverse providing space for the figures for the second half of the season. The obverse of the form was as shown on Form 6, (See Insert I.)

The figures for this form were arrived at and entered upon the form before the beginning of the season. Then the form was sent for approval to the head of the department, to the division manager for selling departments, to the general superintendent, and to the treasurer. It was required that this form be sent to the treasurer's office on Wednesday morning of each week during the season for review.

The expense other than salaries was planned at the same time as the salary expense, and the figures entered on Form 7.

Form 5 was printed on one side only of a 9x11 card, and one card was made out for each department and each general classification of expense. For instance, in each selling department there would be a card for each of such items as advertising expense, heat, light, and power expense, building fixture expense, and total sundry expense. In each non-selling department a card would be used for each major classification of expense in which that department had expenditures.

This form has spaces for an entire year, but is filled out in six months' periods at a time. The card was approved, when filled out, by the department head, by the division manager of a selling department, by the general superintendent, and by the treasurer. It was required that this form be sent to the treasurer's office on the morning of the third business day of each month for review.

This Year

SALARY EXPENSE FORECAST

(The Man with the Plan gets there)

Location ____________________
Floor space in sq. ft. ____________________
Maximum capacity number of sales per week per employee ____________________
Maximum number of clerks to above space ______
Minimum number of clerks to above space ______

Salaries of ____________________ Dept.

____________________ 19 ______

Standard Average Percentage

Location ____________________
Floor space in sq. ft. ____________________
Maximum capacity number of sales per week per employee ____________________
Maximum number of clerks to above space ______
Minimum number of clerks to above space ______

Week		Last Year Actual					THIS YEAR																				
							Planned					Actual					Over or Under Planned Figures					Approved Increases					
		No. of Sales		No. of Empl.	Salaries		No. of Sales		No. of Empl.	Salaries		No of Sales		No. of Empl.	Salaries		No. of Sales		No. of Empl.	Salaries		No. of Sales		No. of Empl.	Salaries		
No.	Ending	Total	Per Empl.		Am't	% to Sales	Total	Per Empl.		Am't	% to Sales	Total	Per Empl.		Am't	% to. Sales	Total	Per Empl.		Am't	% to Sales	Total	Per Empl.		Am't	% to Sales	
0																											
1																											
Total	to date																										
2																											
Total	to date																										
3																											
Total	to date																										
4																											
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9																											
Total	to date																										
10																											
Total	to date																										
11																											
Total	to date																										
12																											
Total	to date																										
13																											
Total	to date																										
0																											
Total 3	Mo's.																										

APPROVED ____________________ Treasurer

APPROVED ____________________ Departmental Merchant or Head of Non-Selling Dept

APPROVED ____________________ General Supervisor

APPROVED ____________________ Division Supt.

EXPENSE FORECAST

Expense (other than salaries) of ______________________
Department or Division

______________________ 19______

		LAST YEAR ACTUAL		THIS YEAR							
				Planned		Actual		Over or Under Planned		Approved Increased	
19______		Amount	% to Sales	Amount	% to Sales	Amount	% to Sales	Amount	% to Sales	Amount	% to Sales
Jan.	Month										
	Season										
Feb	Month										
	Season										
March	Month										
	Season										
April	Month										
	Season										
May	Month										
	Season										
June	Month										
	Season										
Total 6 mos.											
July	Month										
	Season										
Aug.	Month										
	Season										
Sept.	Month										
	Season										
Oct.	Month										
	Season										
Nov	Month										
	Season										
Dec.	Month										
	Season										
Total 6 mos.											
Total year											

Approved ______________________ Treasurer   Approved ______________________ Head of Dept.

Approved ______________________ General Supervisor   Approved ______________________ Division Supt.

FORM No. 7. Expense Forecast Form—J. J. McMahon, Inc.

Both the salary expense forecast and the expense forecast forms bore the following statements:

The data on this card are provided because intelligent effort should proceed from a knowledge of facts. The planned results of the coming season must be carefully prepared by the department head, the division manager, the general superintendent, and the treasurer, and these results must finally be approved in writing. The limits as planned and approved must not be exceeded without previous authority in writing, for the company's finances will be arranged for employment according to the approved plans. All requests for deviations from the planned figures must be made in writing on the form provided for that purpose. The request must state the reason and prove the necessity for the change. The store realizes and recognizes the fact that there will be times when the planned figures should be changed for good and sufficient reasons.

In addition to the cards made up for the individual departments, items of expense which could be planned only for the store as a whole were budgeted on cards for the store as a whole. Such items were: legal expense, general insurance, depreciation of buildings, general traveling expense, and employees' lunchroom losses. In the budgets for the delivery department, cards were provided for (1) salaries, (2) total horse, auto, and wagon expense (this item included feed, repairs to wagons and harness, gasoline, oil, tires, occupancy, expense, and depreciation), (3) packing material expense, (4) and miscellaneous delivery expense. (This item included carfare, freight and express on merchandise sold, and other incidental delivery expense.)

Questions

1. Should this system be installed in the McMahon store?
2. What are the advantages and disadvantages of the system as described?
3. What changes should be made, if any?

Accounting 36

Gordon Department Store—Balance Sheet

The Gordon Department Store closes its fiscal year August 1. The volume of sales for each of the past three years from the first of February to the first of August has been approximately $1,341,000, while in the last half of each year it has totaled approximately $1,634,000.

The Gordon store has been using a balance sheet of the following form:

Assets		Liabilities	
Cash on hand and in bank	....	Accounts payable	....
Accounts receivable	....	Notes payable	....
Notes receivable	....	Accrued items	....
Net inventory of merchandise	....	Real estate mortgage notes	....
Net inventory of equipment	....	Other liabilities	....
Net inventory of supplies	....		....
Prepayments	....		....
Securities	....		....
Real estate	....	Balance	....
Other assets	....		....
	....		
	....		
	....		

Recently this store has received from the Harvard Bureau of Business Research a questionnaire in which was included the following balance sheet form:

Assets		Liabilities	
Current		*Current*	
Cash on hand and in bank	....	Notes payable (mdse.)	....
Notes receivable (customers)	....	Notes payable (money borrowed)	....
Accounts receivable (customers)	....	Accounts payable (mdse.)	....
Net inventory of merchandise	....	Accounts payable—sundry	....
United States securities	....	Accrued items	....
	....		....
	....		....
Other assets		*Other liabilities*	
Accrued interest	....	Real estate mortgage notes	....
Other accrued items	....		....
Investments	....		....
	....		....
	....		....

Deferred charges	
Prepayment	....
Net inventory of supplies	....
	....
	....
Permanent	
Real estate	....
Leasehold	....
Net inventory of equipment	....
	....

Reserves	
For Federal income and excess profits taxes	....
For possible losses	....
	....
Capital	
Preferred—issued	....
Common—issued	....
	....
	....
Profit and Loss—Surplus	
Undivided surplus	....
Undivided profits	....
	....

Questions

1. Should the Gordon store adopt the Harvard Bureau's form of balance sheet?
2. Should any other items be included in this form?

Accounting 37

Wolcott Department Store—Normal Overhead

The sales of the Wolcott Department Store fluctuate with the season. For example, in what the proprietors call a good year the sales run about as follows:

January	$78,500
February	62,000
March	61,500
April	102,500
May	97,000
June	93,500
July	84,000
August	76,500
September	101,500
October	74,500
November	107,500
December	117,000
Total	$1,056,000

In a "poor" year the total sales may fall as low as $800,000, but the monthly sales usually show about the same fluctuations as indicated by the above table.

It is the policy of this company to close its books and to make out a profit and loss statement once a month. The direct expenses such as the wages of the sales force are charged directly to each department. Since the charges for rent, management, heat, light, power, and other overhead expenses vary little from month to month, it is evident that these charges will frequently wipe out all the profit in months when the sales are low. Likewise poor years will frequently fail to show a profit because of the heavy charges for overhead expense.

The proprietors of the Wolcott Store feel that to vary the mark-up in order to cover the charges in the cost of doing business would be impracticable. Competition is too keen to permit them to increase their prices in "poor" months to cover the entire overhead expense. They feel, moreover, that it would not be advisable to lower their prices in good months when an increased sales volume decreases the proportion of overhead charges.

To take care of these charges in sales volume, therefore, and to produce greater stability in prices, the Wolcott Department Store has established a normal rate of overhead which is based on the experience of the store over a period of eight years. This normal rate of overhead is expressed in terms of a fixed percentage of all sales. The fixed percentage of overhead expense is charged to each department each month. In a good year this amount often pays for all overhead expenses and leaves a substantial surplus for a reserve. In a poor year, however, when the fixed percentage of the total sales is not enough to cover the overhead expense, this reserve is drawn upon to make up the deficit.

Question

What are the advantages and disadvantages of such a system?

Accounting 38

Reed Department Store—Inter-Department Transfers

The Reed Department Store is doing an annual business of $3,192,000. This store carries a line of merchandise intended to appeal to a high medium and high grade of trade and specializes in foreign novelties and women's imported wearing apparel. It is the policy of this store to organize special departments from time to time for the purpose of displaying these articles to better advantage than would otherwise be possible. For example, a Japanese gift shop recently was organized, and articles of this nature were transferred from the other departments of the store to this section. Japanese draperies were brought from the silk department, kimonas and lounging robes from the women's ready-to-wear section, rugs from the house-furnishing department, vases and bowls from the china department, and Japanese bric-a-brac from the novelty section.

At the time this department was organized there was a difference of opinion over the proper method of charging these articles out of the various departments. Buyers of the old, established departments asserted that they had been put to a great deal of trouble and expense to secure these imported Japanese articles, which had been purchased largely on the basis of their experience and judgment. These department heads, therefore, held that they were entitled to the profits, and they demanded that the goods be charged out of their departments at the full retail price. The merchandise manager said that inasmuch as there had been certain charges incurred through the handling of these goods after they had entered the store this merchandise should be charged into the new department at cost plus all carrying expenses up to the date of the transfer. This would not give the original departments a profit on these Japanese goods, but it would relieve them of all expenses incurred in securing this merchandise and protect them against loss. The manager of this new department objected to both proposed methods. He maintained that his department was entitled to the profits if it sold the goods, and that, therefore, the goods should not be charged into his section at retail price. He also said that since his department had already been put to heavy expense in securing special fixtures for the proper display of Japanese goods, it

would not be able to show a profit if the merchandise should be charged out of the other departments at billed cost plus a high carrying charge. He believed, furthermore, that it would be impossible to determine the proper carrying charge even if this method were used, and for these reasons he asked the controller to charge the Japanese merchandise into his department at actual billed cost.

Question

What method of charging inter-department transfers should have been adopted by the controller of the Reed Department Store?

Accounting 39

Dellarco Department Store—Discounts to Employees

The Dellarco Department Store, which is located in one of the larger cities of New York state, carries a high-grade line of women's ready-to-wear apparel. The departments which carry these lines of merchandise specialize on style garments, and since 1,726 out of a total of 2,053 employees are women, employees' purchases in the waist, suit, hosiery, undergarment, corset, and lingerie departments are fairly large. It has been the policy of the Dellarco store to allow a discount of 20% on all purchases made by its employees. In the past these discounts have been treated as mark-downs in the department in which the purchase was made. Although this system causes a loss on the merchandise sold to employees, the general manager has held that in the long run the purchases by employees would be equalized throughout the store, so that the handicap would be equal for all departments.

The controller, however, has pointed out the fact that as there are 1,726 women employees compared with 327 men, most of the purchases on which a 20% discount is allowed are made in the departments handling women's wearing apparel.

During the past year the total amount of discounts allowed on employees' purchases amounted to $81,468.17.

The controller is convinced that it is unfair to charge against the department making the sale discounts on sales to employees from any other department. If there were an equal distribution of employees' charges, or if the privilege of discount were not extended to employees in non-selling departments, the present arrangement would be measurably satisfactory, but since the greater part of all employees' purchases are made in the women's wear departments, the discount is allowed on all purchases including those made at mark-down sales, the controller believes that the only proper way to handle the matter is to allow the selling department the full amount of the sale and to charge as a wage item to the department where the employee works the 20% discount on the selling price of the merchandise. He does not believe, however, that it would be practicable to allocate the amount of the discount to the wage of the individual employee.

Question

Should the plan of the controller for handling employees' discounts be adopted by the Dellarco Department Store?

Accounting 40

Elardo Department Store—Expenses of Manufacturing Department

The method of accounting for the expenses of the manufacturing department is a matter of dispute among the executives of the Elardo Department Store. At present the expenses of operating the manufacturing department are charged as part of the cost of merchandise, but only charges incurred for materials, labor, and power are considered as costs of operation, no charges being made for such items of overhead expense as rent, heat, light, insurance, and depreciation.

The general manager maintains that the Elardo Department Store is not a manufacturing but a merchandising business, and that what manufacturing it does is only a side-line and should be treated as such. The controller, however, points out that it is impossible to know the actual cost of operating the manufacturing departments unless indirect as well as direct expenses are charged to it. He would include as part of the expense of operating this department its just proportion of fixed charges, including rent, other occupancy expenses, heat, light, insurance, and depreciation. Then the resulting increased accuracy of the manufacturing cost figures could be used to determine whether or not merchandise might be purchased more cheaply outside the store than it could be manufactured in the store. The head of the planning department believes that the best way to achieve this result would be to charge merchandise out of the manufacturing department at current market prices and see whether the department could show a profit after all proper expenses had been paid. Since valuable space is being utilized for this work, he thinks that manufacturing operations should be discontinued if they cannot show a profit. The general manager is not willing to agree that profit should be the sole motive for operating a manufacturing department.

The principal products of this department of the Elardo Store are millinery, fancy sweaters, men's hats, and cloaks. According to the present method of accounting, the value of the merchandise turned out by this department last year was $278,986.18. The total sales volume of the whole store was $19,134,271.32.

Question

Should the directors of the Elardo Store change the present plan of accounting in the manufacturing department?

Accounting 41

The Champion Grocery Company—Accounting for Grocery Chain

The Champion Grocery Company has been organized by a number of business men who have watched the growth of chain stores in their locality and who desire to participate in the success of this new form of enterprise.

This company's stock has been handled by a large firm of brokers. At present the company has sold $3,000,000 worth of its $5,000,000 7% preferred stock. The common stock of $300,000 is held in the hands of 30 business men of the city and immediate vicinity.

This company employed a general manager who has had considerable experience in grocery chain work, and he has secured from 3- to 5-year leases on some 50 store buildings in desirable locations. All these stores are within a 15-mile radius of the central warehouse of the company, which was formerly the main building of a sugar refinery. It is the plan, however, to extend this chain to 250 or 300 stores throughout the city and its suburbs within the next four or five years.

It has been decided to handle the usual line of chain store groceries, carrying no fresh fruit except oranges and bananas, and no fresh meats, vegetables, or other products which are easily perishable. Deliveries on orders amounting to $1 or over are to be made after 4:00 p. m. by schoolboys with push-carts.

One of the questions now before the executive committee and the board of directors is what method of accounting should be used in the operation of this chain. Several of these directors are department store executives who are strong believers in the retail method of inventory.

This group holds that all products should be charged out of the warehouse at the retail price and that the individual store manager should be held responsible for this amount of goods or the cash value of the goods sold.

Some of the directors believe that the goods should be charged out of the warehouse at the actual cost price and that the expenses of the warehouse and central office should be distributed as an overhead burden to the different stores on the basis of their sales.

Mr. Cronin, the company's accountant, has suggested, however, that all groceries should be charged out of the warehouse at actual cost price plus all handling and warehouse expenses, so that the overhead would be absorbed while the profits still were taken at the retail end.

Still another group holds that the warehouse should be run on a wholesale basis and the groceries charged out at wholesale prices to the unit stores so that the warehouse will pay for all general office and administrative expenses and at the same time show a wholesaler's profit.

Another problem under consideration is whether or not a central accounting office should be established. One group of the directors holds that the unit store manager should send daily records into the central office, where all accounting would be done by proficient bookkeepers and accountants, thus lefiving the store manager free to attend solely to his customers' needs. Another group maintains, however, that a store manager would push the sale of slow stock better if he had charge of the records which actually showed the weak lines in his store.

Questions

What action should be taken by the executive committee on the following questions:

1. Should one itemized operating expense account be kept, or should the expense charges be subdivided according to the functions of selling, occupancy, delivery, and buying?

2. Should the accounting work be done by the individual store manager or should all books be kept at the central office?

3. What expense accounts and what merchandise accounts should be kept?

4. If the accounts are kept at the central office, what reports should be received from the unit store managers, and how often should they be sent in?

5. To what extent should accounting be used in the merchandise control of a chain store business? How much should this control depend upon statistics? What statistics should be collected from the individual stores?

6. Should the goods be billed from the warehouse to the unit stores at:

(*a*) Actual cost price?

(*b*) Actual cost plus handling and warehouse expenses?

(*c*) Wholesaler's price to enable warehouse to show a profit?

(*d*) Retail?

7. If the goods are not billed at retail, on what basis should the overhead charges be distributed to the individual stores?
8. Should the inventory be taken at cost or retail?
9. Should the inventory be taken by each store manager or should an inventory crew be sent out from the central office?
10. How often should this inventory be taken?
11. Should the unit store manager be required to keep his stock within certain limits, or should he be allowed to order goods from the central warehouse according to his judgment and the local demand?
12. How should the stock limits in each store be determined?
13. Should branch store managers be permitted to buy any groceries not supplied by the central warehouse?

Accounting 42

The T. & J. Shaeffer Company, Inc.—Charging Rent to Advertising Expense

The specialty shop of the T. & J. Shaeffer Company, incorporated, in a large middle western city is one of a chain of four shops under the same ownership. The store does a cash business with sales which run from $1,600,000 to $1,800,000 a year.

The Shaeffer store is adjacent to several large department stores and a number of other specialty shops in one of the main retail sections of the city. Its building is narrow and is set back from the street further than the buildings on either side of it. Thus its windows get poor light and it is difficult to arrange satisfactory displays. For this reason, Shaeffer's has rarely attempted to display suits or gowns in its windows; because of the poor light such garments would look dingy and appear to be of poor grade. In reality the merchandise carried by the Shaeffer store is of good quality and is thoroughly up-to-date in style.

Since it is unable to use the windows for these garments, Shaeffer's always displays garments of light color, usually waists. Because of this emphasis on waists, the manager thought that the waist department should be located on the first floor of the store as near as possible to the display windows. Accordingly, in the store layout, this department occupied a position just inside the main door, and immediately behind the window usually given over to waists. Charging rent to the waist department on a weighted square-foot basis which was thoroughly sound and in accord with good accounting practice, the store was unable to make the waist department show a profit.

Questions

1. Would the Shaeffer store have been justified in charging part of the rent of the waist department to advertising?
2. If not, how should the books of the company have been kept to show the true situation?

Accounting 43

Method of Accounting for Produce Taken in Trade

The L. E. Harvey Cash Store is a typical country store handling general merchandise. The sales of this company for the year ending December 31, 1919, amounted to $165,455.33; its gross profit amounted to $42,590.91, and its total expense to $19,672.52. During the year merchandise to the value of $134,484.14 was bought. Of this amount $2,139.62 represented farm produce, such as butter, eggs, poultry, potatoes, beeswax, and honey, taken from some of the regular customers in exchange for merchandise.

Mr. Hooper, the manager of the store, when submitting his statement to the Harvard Bureau of Business Research, wrote the following letter:

Gentlemen:

Do you have a system for general or department stores, for dividing the store in departments, and keeping the costs in the office, so we will not be obliged to put the cost mark on each item? Also how would you suggest the handling of produce? We take this in trade, and issue trade chips, so they can be traded out at the convenience of the customer. How would you keep this so you won't make a double entry?

I received one of your bulletins a year ago, and it helped me out a great deal. Thanking you, I am

Yours,

JC:FJH F. J. Hooper

Questions

1. Should the store continue to take produce in exchange for merchandise?
2. If so, what accounts should be kept?

F. THE AUDIT AND ITS PROBLEMS

Accounting 44

Arlo James & Son—Handling Sales Records and Accounts Receivable in a Unit Grocery Store

The grocery store of Arlo James & Son does a business of between $450,000 and $500,000 a year. The store carries a complete line of staple groceries and is well known for its complete stock of high-grade fancy groceries, fruits, and vegetables. The store stocks salt and smoked meats, but does not carry fresh meats. All salespeople sell in all parts of the store, and there has been no attempt to keep the accounts or sales records for the various lines separately.

Mr. James has always insisted that a sales slip be made out in duplicate for every transaction. Each salesperson is provided with a book of sales slips, bound 50 slips in a pad, the original being printed in black and the duplicate in red. These books of sales slips fit into leatherette covers which have space for two envelops, the purpose of which will be described later.

Five types of transactions are distinguished in the store: cash-take, cash-send, charge-take, charge-send, and C. O. D. For all transactions the same sales slip is used. This slip provides at the top space for the date, customer's name, and the sales person's number; below it, in bill form, is space for entering the items purchased. There are no additional vouchers or address slips attached.

For cash-take sales the original is given to the customer and taken by the customer to the cashier's desk; here payment is made, and the cashier receipts the slip and gives it to the customer. The duplicate is placed by the salesperson in the cash envelop in his sales book cover. There all the cash sales slips are accumulated for the day and turned in to the cashier at the close of business.

For cash-send transactions the salesperson makes out the sales slip in duplicate and with the slip still in the sales book accompanies the customer to the cashier's desk where payment is made. The cashier receipts both original and duplicate, and the sales person enters the amount of the transaction in the tally provided on the envelop in which he places his cash-take

sales slips. After the order has been filled both the original and duplicate slips are attached to the merchandise and sent to the delivery room. There the original is filed and the duplicate is sent with the merchandise to the customer.

For charge-take transactions the original is filed in the charge envelop of the salesperson's sales book, and at the close of the day the envelop is turned in to the cashier. After the cashier has listed and checked the sales slips to get that salesperson's charge-take sales for the day, the slips go to the bookkeeper for entry to accounts receivable. The duplicate goes to the customer with the merchandise. In the case of charge-send sales both the original and duplicate sales slips go to the delivery room with the merchandise. There the original is filed and sent to the bookkeeper for entry to accounts receivable, and the duplicate goes to the customer with the merchandise.

C. O. D. transactions are handled exactly as charge-send transactions, credits to accounts receivable being made when the money is turned in by the driver on his return. On the envelop in which he places the originals of the charge-take sales slips each salesperson has two tallies, one for entering the amounts of charge-send transactions and the other for entering C. O. D. transactions. On these tallies he must enter each transaction as it is made during the day.

The cashier is responsible for handling all money received and also for getting out a daily sales report. In carrying out the first part of her duties the cashier lists on an adding machine each transaction as payment is made. At the close of the day her adding machine total should agree with the total of the cash sales slips included in the cash envelops turned in by all the salespeople plus the cash-send transactions recorded on the tally printed on their respective envelops. This gives her the cash sales for the day by salespeople and for the store as a whole. If the adding machine total does not check with the sales slips and tally entries, the cashier goes over her adding machine strip checking item by item against the sales slips and the tally entries turned in.

Similarly the cashier compiles a report of the charge sales for the day by salespersons and for the store as a whole, securing her data from the original sales slips of charge-take transactions forwarded to her in the salespersons' envelops and her record

of the charge-send and C. O. D. transactions from the tallies on the outside of those envelops. In the daily sales report charge-take and charge-send transactions are combined; this final report shows the cash, the charge, and the C. O. D. sales in dollars for each salesperson in the store.

In handling the accounts receivable the bookkeeper uses the familiar double-entry system, having an account for each customer and a single accounts receivable controlling account in the general ledger. In spite of the fact that the store has upwards of 300 customers' accounts, it has never divided these accounts into sections in order to reduce the labor of rechecking in case the trial balance fails to balance. If trial balance, which is taken each month, does not balance, the bookkeeper divides his accounts into sections and takes a trial balance of each section; however, these sections are not permanent divisions of the accounts receivable account.

In making his entries in the journal, the accounts receivable account in the general ledger and in the various customers' accounts, the bookkeeper proceeds as follows: Charge-take sales slips come to him from the cashier accompanied by an adding machine strip and total covering that lot of sales slips. The bookkeeper enters the amounts from the sales slips to the customers' accounts, and, as he enters these amounts, checks off each amount on the adding machine strip. If all the amounts agree, the total is assumed to be correct, and his total is entered in the original and in the accounts receivable account.

Charge-send and C. O. D. sales slips come to the bookkeeper in a similar manner from the delivery room. It will be recalled that all orders to be delivered go to the delivery room accompanied by both the original and duplicate sales slips. In making up the drivers' loads the delivery clerk leaves the duplicate sales slip for each order with the goods and places the original on a filing board, entering the amount of the order on the adding machine at the same time.

On the adding machine strip cash-send, charge-send, and C. O. D. transactions are entered without distinguishing marks. An adding machine strip and a filing board of sales slips to correspond is made up for each load taken by each driver. These filing boards together with the corresponding adding machine strip are forwarded to the bookkeeper. The bookkeeper checks

over this list as he makes his entries to the customers' accounts, posting both charge-send and C. O. D. slips to the customers' accounts. The remaining slips, i.e. the ones not checked on the adding machine tape, are assumed to be cash-sends. To check the work, the cash-send slips remaining on the filing board are totaled, and their total, subtracted from the grand total shown on the strip coming from the delivery room, gives the amount entered in the journal and debited to accounts receivable.

When the driver returns from his trip he makes a report on a form showing the name of each customer paying him for a C. O. D. order and the amount which that customer paid him. His money, of course, must correspond with the total shown on this slip. With this report as his guide the bookkeeper makes appropriate credits to the various customers' accounts.

Questions

1. Should any changes be made in the system of accumulating sales statistics or in the sales slips themselves?
2. Would it be possible for the store to make any changes in its method of handling accounts receivable?
3. Does the store get ample reports on sales?

Accounting 45

Seacrest Department Store—General Audit

The Seacrest Department Store with an annual sales volume of $7,967,000, caters to a medium and high class of customers. This store is divided into 61 sales departments, and carries particularly large lines of women's wearing apparel and house furnishings. Sales are held frequently.

The store has a system whereby every item is checked by two clerks when it is entered in the books. All acounts are audited by office executives at frequent intervals and by a certified

public accountant twice each year. Under this system the following items are audited daily:

- All sales slips
- Express charges, including the rate, the route, and the weight
- Cash
- Charge items
- C. O. D.
- Merchandise purchased
- Expense bills
- Refunds
- Trading stamps, which are treated as cash
- Trading stamp redemptions
- Cashiers' accounts
- Supplies

Each month also there is a complete audit of all these items, as well as:

- Waste paper
- Coal
- Water tax
- Light charges
- Heat expense
- Advertising
  - by each department
  - by each newspaper
- Construction
- Telephone
- Insurance
- Postage
- Bank accounts with cash.

Not only is the amount in dollars and cents audited, but the actual items are checked in every instance, and a standard method of procedure is kept in effect. For example, the amount of wrapping paper and twine used during the month is checked up with the number of packages of certain sizes and weights which are sent out of the store, there being a standard number of times which the twine should be wrapped around a bundle of any particular size.

Coal is checked up for the number of tons delivered, the number of barrels of ashes per ton of coal and the test for British thermal units as compared with the estimated amount of heat actually received from the coal.

All the electric light bulbs are labeled with the date that they are put in use. A record is kept, and bulbs which do not furnish the standard amount of service are returned to the electric supply company for refund. This account is carefully audited every month.

No pencils are given out unless the used stubs of the last issue are returned.

A careful check is made to determine the number of sales books needed for each month in the year in order that these items may be ordered only in time for actual use. This saves storage space and prevents the needless tying up of capital.

There is a careful check on the automatic bargain basement to see that too much merchandise is not put into stock at any one time, in order to eliminate the danger of being forced to sell at a sacrifice because of the automatic mark-down of all stock which remains in the selling department at the end of one week.

The number of sales of an advertised article are carefully checked against the amount of money spent for advertising in order to determine proper results.

Each month there is a complete analysis of the stock in each department as to style, quality, price, and size.

In addition to the checking of these details there is a thorough audit by a certified public accountant twice a year at the end of each season. It is impossible to determine the total cost of all auditing.

What are the advantages and disadvantages of the audit in use in the Seacrest Department Store?

The Coughlin Grocery Company, operating 109 stores, has a total sales volume of $4,920,000 annually. This company carries in their stores no fresh fruits, vegetables, meats, or other products which deteriorate rapidly, and all sales are made on a strictly cash basis, with no delivery service by the stores.

The accounting work is all done in the central office from the daily records sent in by the unit store managers. All groceries are delivered to the unit stores from the central warehouse and the store managers are not allowed to make any purchases at any time.

Question

Could the audit system of the Seacrest Department Store be applied successfully to the Coughlin Grocery Company?

Accounting 46

The McMasters Specialty Store—Monthly Auditing

The McMasters Specialty Store carries women's ready-to-wear apparel and appeals to a high and medium class of customers. This store has an annual sales volume of $1,200,000, but owing to the seasonal nature of the business the amount of money tied up in the merchandise varies during the course of the year. At the height of the spring and fall seasons, most of the working capital is tied up in merchandise, but toward the end of each period this store has a large amount of cash on hand.

It is the policy of Mr. Dillock, the controller, to invest as much surplus funds as are available in sound securities, in order to secure as high a rate of interest as possible and thus add to the profits of the store. To take advantage of the investment market, it is necessary to know the exact financial status of the store and for this reason Mr. Dillock has the books closed and audited by a certified public accountant at the end of each month. The cost of each audit is about $35. Some of the directors object to this expenditure on the ground that an audit once or twice a year should be sufficient. This latter policy is followed by the Black Department Store, which is located directly across the street from the McMasters Specialty Store, and is noted for its conservative policies. This department store caters to a slightly lower class of trade than the specialty store and carries but a limited line of women's ready-to-wear apparel, specializing more in furniture, rugs and general household furnishings. The sales of this store, however, are more nearly uniform and less dependent upon seasonal variations than the sales volume of the McMasters Specialty Store.

Mr. Dillock maintains that he would not be able to make his investments of surplus funds unless he had this audit on which to base his judgment of the store's probable needs. He admits that the interest received from these investments, less the necessary brokerage fees, sometimes fails to pay for the total expense of these audits, but he asserts that in spite of this loss the audit is valuable in showing up the weaknesses in the different departments of the store. By means of this monthly audit all irregularities and the various mistakes of the different buyers can be detected in time to correct them before serious harm is done.

He also says that the moral effect of the monthly audit is such that all records and accounts are kept up to date and in better shape than they would be if an audit were made only yearly. Thus mark-downs, returned goods, and errors on sales slips are carefully watched and reported by the buyers, who fear criticism at the end of the month if the audit shows stock shortages in their departments.

The McMasters Specialty Store has a low stock shortage of less than one-half of one per cent, though this fact is not directly traceable to the audit system.

Questions

1. Should the McMasters Specialty Store continue the policy of a monthly audit?
2. Would it be advisable for the Black Department Store to put in a monthly audit system?

Accounting 47

The Marlow Department Store—Audit

The managers of the Marlow Department Store are anxious to install a thorough and complete system of sales auditing. They are convinced that a great many errors and leaks go unnoticed because the system of checking these mistakes is not adequate. They wish to avoid, however, a complicated and expensive system which might cost more to operate than it would save in detecting mistakes. Since the Marlow store employs over 850 people and has an annual sales volume of nearly $5,000,000, the managers are convinced that a thorough system of auditing should be installed.

The managers have learned that the Bureau of Research & Information of the National Retail Dry Goods Association has recommended the following department store audit:*

*See *Special Report on Department Store Audit,* March, 1921, compiled by Bureau of Research and Information, National Retail Dry Goods Association, 200 Fifth Avenue, New York, N. Y.

Preliminary Report

The buyers send the auditing department a report of their sales according to the sales clerks' indexes at the end of the day. A report of gross sales by departments is made up from these figures the following morning to give the executives an idea of yesterday's business.

Charge Checks

Charge-send checks are received by the auditing department from the delivery and credit office at the same time that charge-taken checks are collected from the cashiers' desks. All checks are sorted according to departments, and given to comptometer operators, who check all extensions and compare amounts and serial numbers with sales index. The sales checks are then entered on operators' sheets, and the totals of these sheets must agree with the total of the indexes. The sales checks are then added together, and if not in balance each department is figured separately. If still out of balance, each sales book is figured separately. The chief operator then secures a total of the charge figures for the day and the checks are given to ledger credit clerks, who sort them according to ledgers, and list and total the checks on adding machines. The total of all the ledgers must balance with the chief operator's total. The checks are then stamped "Audited," dated, and sent to the bookkeeping department with lists attached.

Cash Records

All cash sales checks, refund checks, deposit slips, and cashiers' reports of amount of cash turned in are received from each cashier. The sales checks of each cashier are added and balanced with the cashier's report. If out of balance, the report is rechecked, listed, and shown to the cashier. The checks are then sorted according to departments and sales numbers, after which they are entered on balance sheets and checked with the indexes. The cash column on the balance sheet is then totaled and compared with the grand total of the cashier's statement. If out of balance, another operator checks back the work by departments and then by sales books.

Cash Registers

The tape showing each amount registered is torn off and the total shown by the indicator is noted. If the registers stamp the sales checks, the checks are balanced with the cashier's report of receipts from each register. The amount sold by each salesperson is entered in the audit cash book. The cash turned in, the tape reading, and the amount of checks must agree. Where registers do not stamp the sales checks, the amounts sold by each salesperson is taken off the tape and entered on a register reading sheet. A sales index for each salesperson is made showing the number of sales, amount, and department.

Records of cash, checks, money-orders, etc., received on account are listed on adding machines, balanced with the cashier's figures, and

sent to the bookkeeping department. Refunds are listed separately and balanced with the refund list of each cashier. The grand totals are then balanced and the refunds sent to the credit clerk. Cash deposits are listed and balanced with the cashier's figures.

C. O. D. Sales

C. O. D. sales checks are received from the delivery department and sorted according to departments. The extensions are checked, compared with the index cards and entered on operator sheets. The total of the operator sheets must balance with the total of all the C. O. D. checks. The C. O. D. checks are then sorted according to register numbers and turned over to the C. O. D. bookkeeper. C. O. D. checks that have been paid are withdrawn and attached to their respective cashier's C. O. D. sheets. The total of all checks attached to each sheet must balance with the amount of cash paid in on that sheet, and the total of all C. O. D. checks must balance with the total cash received by the cashier.

The C. O. D. merchandise credits are received from the returned goods department and sorted into register numbers. C. O. D. deposit checks for which merchandise credit is received must balance with the merchandise credit checks.

All C. O. D. checks that are not accounted for are listed and sent to the delivery department to be traced. The operators then check off "void" and "L. O. G." (left out goods) checks on index cards, note any changes of charge or C. O. D. checks made and enter the missing checks on the missing check sheet.

Missing Checks

A list is made of the missing checks and the duplicate or tissue copy of sales checks is referred to in tracing lost checks or making out duplicates. A missing check report is made daily to the general office, and when the credit department holds a check pending investigation they must notify the audit department. If a check is lost by the auditing department an order is required which is filed in the place of the check that is missing.

Credits

Call credits, split credits, and C. O. D. credits for merchandise returned by the delivery department are received from the returned goods room. Credits for merchandise returned by the customer are received from the credit office or from the department accepting the goods. Merchandise credits are assorted by departments, checked off the index cards, and listed by machine according to sales and department numbers, with the refunds added to the list. The figures are entered on the general sales sheet, posted in the general sales book, and in a book showing a record of the individual credits. The charge credits are then listed according to ledgers and sent to the bookkeeping department with lists attached.

Missing Credits

All missing call and split credits returned by the delivery department are traced in the returned goods room. All missing C. O. D. credits are traced in the C. O. D. department. Floor credits are audited according to their serial number and closed out as they go through. A missing list is kept and duplicate copies made out when required.

Deposits

A duplicate copy of all deposit slips is sent to the cashier attached to a "deposit received" slip. These deposit records are balanced with the figures in the auditing department and entered in a book according to date and serial number. The original deposit slip is retained by the cashier on the floor until allowed, when it is sent to the head cashier attached to a slip "deposits allowed." The auditing department balances these slips with the cashier's list and closes them out in the deposit record book. At the end of the month open deposits are checked with the records in the cashier's office.

Memorandum Charges

Furniture and merchandise sent to customers on memorandum is entered in a special sales book. If the merchandise is returned, a memorandum credit is made out, but if the goods are kept, a regular sales check is made out and a memorandum credit is used to offset the memorandum charge.

General Sales Record

When the entire day's sales have been balanced the totals of the charge checks with the total of the ledgers, employees' mail order and the credit to cover charges, the cash checks with the cashier's report, the C. O. D. sales with the sheets from the C. O. D. office, are cross-balanced with the operators' sheets and turned in to the chief operator. A daily report is made out showing the charge, C. O. D., and total gross sales per department. The credits are then deducted, giving the net sales. From this report the figures are posted in a book showing the charge, C. O. D., and cash gross sales and credits. In another book the net sales are entered, both books showing the daily, weekly, and monthly figures by departments. A weekly comparative statement is made from the net sales book and a weekly statement made to the paymaster of net department sales for the purpose of figuring the selling costs. At the end of the month charge and credit changes are added to and deducted from the sales report of the last day of the month.

Operators' figures are also entered in the department and individual selling book, which shows the gross and net sales by department and sales clerks. Cash, charge, and C. O. D. checks are counted by department and by salesperson and an average value sales report is made at the end of the month showing the gross sales, the number of checks used in each department, and the average amount of each check.

Stock Figures

When an inventory is to be taken the statistical office sends a notice to the auditing department advising them of the department and date of inventory. The complete sales and returns record of this department is then closed up and the stock figures entered on the notice of the statistical department, which is returned to them.

Special Orders

Special order books are made in triplicate. The original copy is sent to the floor superintendent's file at the cashier's desk, where it is filed according to due date. The duplicate copy is made out and is sent to the buyer's office, where the order to purchase the goods is made out and is filed alphabetically. The tissue copy remains in the book. When the goods are ready for delivery, the sales clerk sends the duplicate copy to the cashier with the sales check. The cashier removes the original from the file and sends both canceled copies to the auditor, who destroys the carbon copy and places the original in its numerical position in the file for special orders.

L. O. G. Vouchers

L. O. G. (left out goods) vouchers are made on all orders where goods owned by the customer are left at the store. These vouchers show the value of the goods and the promised date. Four copies of the L. O. G. vouchers are made out. The original is sent to the floor superintendent's file at the cashier's desk and filed according to date promised for delivery. The yellow copy is retained in the department and placed in the alphabetically arranged file of unfilled orders. The card copy is attached to the goods, with the exception of the voucher, which is given to the customer as a receipt. The tissue remains in the book.

Each day upon receiving the L. O. G. slips from the cashiers the clerks in the auditing department destroy the duplicate copies and file the original according to its serial number.

Adjustment Vouchers

An adjustment voucher is made out whenever adjustment of a customer's claim involves an expense not properly chargeable to the sales department where the goods were purchased. Floor superintendents fill out the vouchers personally, charging the expense to the department at fault and crediting the department in which the sales were made. In case of damage in delivery, the charge should be made against the delivery department, express company, or post-office, as the case may be. Original copies of the adjustment vouchers are sent to the auditing department, where they are audited and a departmental statement made out.

Question

To what extent is the foregoing system adaptable to the needs of the Marlow department store?

PART III

STATISTICAL PROBLEMS

PART III

STATISTICAL PROBLEMS

THE organization of separate statistical departments is a recent development in some of the larger department and chain stores of the country. Such separately organized departments will probably be limited in the future to the larger institutions. However, retail statistics are being used, and will be used much more extensively by all retailers, to show facts concerning the details of the business itself and conditions affecting the business from the outside. The outstanding feature of the best managed stores of today is the *control* exercised over the operations of those stores. This control is made possible by knowing all facts surrounding a given situation. The summing up and presentation of these facts form the statistical problems of retailing.

It is oniy proper that the section on Statistics should follow that on Accounting in this book. Accounting involves the interpretation of facts made possible by the recording of financial data by correct bookkeeping methods. Statistics do the same for a wider field, the statistical information regarding Accounts only forming an important part of *internal statistics*. To gain a more complete control from internal statistics other information is needed, such as personnel, stock, and selling statistics. But, gathering information for use in buying is mainly a problem of the collection of data outside the store itself. Forecasts of business conditions affect the selling, buying, and financial policy of retail institutions. These are examples of *external statistics*.

The statistical problems used in this book have been gathered mainly from the larger department and chain stores, because the problems as such existed there and were not visible in the smaller stores. It is believed, however, that these same problems are present in the smaller stores and it is hoped that the

ideas offered by the problems based on larger institutions will be of value in suggesting an approach to the problems in the smaller business.

The problems have been classified as follows:

A. Statistical Methods

1. Selling Statistics
2. Stock Statistics
3. Buying Statistics
4. Personnel Statistics

B. General Operating Statistics

C. Presentation of Statistical Information to the Chief Executive or to Subordinates

D. The Organization of a Statistical Department

A. STATISTICAL METHODS

1. SELLING STATISTICS

Statistics 1

Gurney Department Store—Selling

The Gurney Department Store has a yearly sales volume of approximately $9,328,000. Operating expenses in this store have increased during the past four years to such an extent that the percentage of net profit has been reduced appreciably. The board of managers are convinced that part of this increase in expense has been due to poor control of the sales force and other groups of employees. For example, a buyer may think it necessary to hire an extra salesperson for his department and later finds that there is little for her to do except during rush hours.

The head of the accounting and statistical department has advanced the argument that the operation of the sales force and expenses as well could be easily controlled if the proper statistical data were compiled. He says that it is essential to know the amount sold by each clerk in a day in order to control the sales quota. The managers believe, however, that this data

does not tell the whole story, as one clerk may secure a customer who spends $50 or $100 while another clerk may be engaged for the same length of time with a customer whose purchases total only 75 cents. The head of the statistical department also says that the number of transactions shows the number of customers that a clerk has handled in a day, and that from this information it can be decided which salespeople go forward to wait on the customers as soon as they enter the store, and which hang back and are less attentive to their duties.

This department head thinks that the average sales check is a common factor on which to base comparisons with the preceding year. He considers this figure an excellent index of the class of business handled by a store, unless new departments have been established, thereby destroying the comparison value of the figures of past years. He maintains, also, that the average amount of the transactions should be determined for each department and for each salesperson, and that these figures, in order to be effective, must be computed from the total net sales and the total number of transactions after all returns and allowances have been deducted.

This department head points out that another advantage which will accrue to the store from securing this data is the possibility of forecasting the size of the sales force needed, and the kind of merchandise to purchase; for example, if the average sale is low, it is evident that in order to get a large volume of business a larger number of sales must be made than would be necessary if the average sale was high. Consequently, if the store managers find that their average sale is low, it will be necessary to have a larger number of clerks to handle the business. Furthermore, he maintains that if the amount of the average sale is lower than it was a year ago, it indicates that customers have a tendency to buy from hand to mouth. Consequently, whenever the merchandise manager notices that the average sale figure is becoming lower, he should take steps to curtail the purchase of expensive merchandise and to restrict his buyers to the purchase of less expensive staple commodities. On the other hand, if the average sale figure is higher than it was a year ago, this man believes that the merchandise manager should encourage his buyers to provide a more expensive grade of merchandise to fill the demands of his store's customers,

The board of managers is undecided as to the value of collecting this data since they are not convinced of its value for the purposes of control. Furthermore, they dislike to undertake the collection of this data since an additional number of employees would be required in the statistical department for this purpose.

Question

For what purposes of control can these figures be used?

Statistics 2

Mooney & Davis, Inc.—Sales Statistics

The Mooney & Davis department store collects sales statistics of two general types: the report of sales by departments, which is ready about 30 minutes after the close of the day's business and which is subject to correction, and the report of sales by departments and by salespersons, which is ready on the second day after the day for which the report is made, the figures on

Day __________ Month __________

Department	SALES		TOTAL SALES	
	1920	1921	1920	1921
Total				

Weather __________ Date __________

Last Year __________

FORM No. 8. Mooney & Davis, Inc.—Sales Report by Departments

which are final. The first report, made out on Form 8, shows the sales for the day, the sales for the corresponding day of the preceding year, total sales for the current month, and total sales for the same period of the preceding year. These figures are given for each department and for the store as a whole. The figures shown for the preceding year are the final corrected sales figures. The figures shown for the current year are subject to correction. These figures are compiled as follows:

Each salesperson has in her sales book copies of Forms 9 and 10. On these forms the amount of each sale is entered in the space

Sales No. __________ Date ____________

Dept. ____________ Name ____________

	SUB-DIV.	CASH		C. O. D.	
		Dollars	Cents	Dollars	Cents
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					

CARRIED OVER

Sales No. ________ Date ______________

Dept. __________ Name ______________

	SUB-DIV.	CHARGE Sales	
		Dollars	Cents
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

CARRIED OVER

FORMS No. 9 and 10. Mooney & Davis, Inc.—Clerk's Sales Record

opposite the number corresponding to the sales slip used for that sale. Immediately upon the closing of the day's business, each salesperson totals her cash, her C. O. D.'s, and her charge sales for that day and gives this total to the head of her depart-

ment. The department head totals the sales of all the salespeople, and thus secures the total sales for the department for the day. These figures for the several departments are furnished to a clerk, who enters them on Form 8, computes the total sales for the store for that day and the total sales for the month to date, including that day. This final report on Form 8 is placed on the merchandise manager's desk the next morning.

The corrected sales figures, which are available about noon of the second day after the day to which they refer, are compiled in the auditing department. In order to understand just how these figures are secured, it is necessary to trace the steps from the time the sales slip is made out until the final audit has been made.

Cash sales are recorded in the department on an original and duplicate sales slip, Form 11. These forms are bound 50 sets to the book. Both the original and duplicate consist of three coupons, an address slip, a sales slip, and a voucher. The address slip is filled out for cash-send sales only. For such a sale, the customer's name is filled out in the space provided, and the original is used as the label on the bundle. The original of the sales slip is filled out for all transactions. After being properly filled out by the salesperson, the sales slip with the voucher attached goes with the goods and the money to the inspector-wrapper, who inspects the slip, registers it in a machine which records the amount of the sale, cuts off the voucher, and deposits it in a voucher box which is locked. The register also prints upon the sales slip the amount of the sale which has been registered. The voucher remains in the voucher box until collected by a messenger from the auditing office, who takes off the total shown by the register and resets the dials. This messenger takes the vouchers to the auditing office, where they are sorted according to salespersons and totaled to ascertain whether they balance with the totals shown in the register. The original sales slip, after being printed by the register, is placed in the customer's bundle. It is the customer's receipt. The duplicate of the address coupon, if the sale is a send transaction, is retained and filed in the adjustment office for reference in case of non-delivery or other question. The duplicate sales slip is sent to the auditing office to be audited. The duplicate voucher is held by the inspector for reference.

SOLD BY

NAME 38

CASHIER'S STAMP OR C. O. D. AMOUNT

ADDRESS 96044

OD

Ship Via

EX. PKG.	DATE	HOW SOLD	AM'T OF SALE

Chg. to

Address

SALES NO. *Pur. by* OD 38

96044

IN CASE OF ERROR OR EXCHANGE RETURN THIS BILL

SENT TO

DIFFERENT

ADDRESS

NAME OF CHARGE

ACC'T NO.

AM'T OF SALE

AM'T REC'D OR HOW SOLD

CLERK

96044

OD 38

FORM No. 11. Mooney & Davis, Inc.—Department Cash Sales Records

In some departments a triplicate of each transaction is made on a tissue inserted at the time the sales slip is filled out. These tissues are bound 50 sheets to a book, as are the sales slips. They are retained by the salesperson until a book of 50 is filled and then filed in the auditing office for reference.

After having been sorted by departments and by salespersons, the original vouchers are totaled for each salesperson on a comptometer and entered on Form 12, which carries a column for

DATE ______________ DEPT. ______________

													TOTALS
	CASH GROSS												
	CASH CREDIT												
	CASH NET												
	CHARGE GROSS												
	CHARGE CREDIT												
	CHARGE NET												
	C. O. D. GROSS												
	C. O. D. CREDIT												
	C. O. D. NET												
	TOTAL GROSS												
	TOTAL CREDIT												
	TOTAL NET												

ANALYSIS

Depts.	Gross	Returns	Net
Totals			

RECAPITULATION

Depts.	Gross	Returns	Net
Totals			

FORM No. 12. Mooney & Davis, Inc.—Department Sales Recapitulation

each salesperson in the department. These figures are entered in the line for cash gross. From the cash gross for each salesperson is deducted the credits given during the day on cash sales by that salesperson. The result is the cash net for the day. These cash items are entered on Form 12 some time on the day following the day to which the figures refer.

For charge sales the procedure is slightly different from that for cash sales, the difference being due chiefly to the necessity for posting the charge sales to the customers' ledger and entering

Sent to

28 7147

EB	Sold by	Date	

Charge to

Sent to

EB	Sold by	Date	Purchased by	28 7147

	HANDKERCHIEFS		

Name of charge

28 7147

EB	Sold by	Date	Amount of sale $	

FORM No. 13. Mooney & Davis, Inc.—Department Charge Sales Slip

the transactions on the customers' monthly bills. The original source of data on charge sales is shown on Form 13, the charge sales slip. The original of the charge slip consists of three coupons, an address coupon, a sales slip, and a voucher. The duplicate consists of an address coupon and a sales slip. A third copy is made on a tissue, as explained later. The address coupon is used only for charge-send sales. For such sales the original of the address coupon, after being authorized by the charge office, is sent with the bundle to the shipping room, where it is examined, compared with the customer's copy of the sales slip, and used on the bundle as a label. This coupon is both the address label and the shipping clerk's authorization to ship the goods. The duplicate of the address coupon for charge-send sales is kept on file in the adjustment office for reference in case of non-delivery or other question.

The sales slip, after being properly filled out by the salesperson, is sent with the goods to the authorization station, where the charge is verified and authorized. The original is retained at the authorization station until called for by a messenger from the accounts receivable department. The duplicate is the customer's receipt and is placed in the bundle to be kept by the customer as a memorandum for checking bills or returning goods. The voucher, which it will be recalled appears on the original only, is detached by the authorizer, kept on a spindle, and later collected by a messenger from the auditing office, which keeps it for reference. The tissue copies, which provide a triplicate of each transaction, are bound 50 in a book to correspond with the number of charge sales slips in a book. The tissue copies are not removed from this book, but are kept by the salesperson until the book is full, when the cover containing the tissues is sent to the auditor and filed by departments to be used as a reference.

The original sales slips which are retained at the authorization station are collected several times daily by messengers from the accounts receivable department. There they are sorted into ledger divisions and, on the morning following the date of sale, are given to a bookkeeper, who checks the extensions and totals and gives the slips to the poster. The poster posts the data and amount of each transaction to the customer's account, returning the slips to the bookkeeper with a tally. The bookkeeper then

gives the slips to a biller who enters on the customer's monthly bill the date, quantity, items, amount per item, and total for each purchase. The biller also prepares a tally which she returns to the bookkeeper with the sales slips. The bookkeeper compares the poster's tally with the biller's tally, and if the two agree, their work is correct.

After having passed through the accounts receivable department, the sales slips are sent to the auditing department, where they are sorted by departments and by salespersons. Each slip is audited and a total accumulated for each salesperson on a comptometer. These totals are entered on the departmental work sheet (Form 12), as charge gross. Each salesperson's charge credits for the day are deducted from her charge gross for the day to give a charge net for the day.

For C. O. D. transactions, the regular cash slips (see Form 11,) are used. After having been made out by the salespersons, the sales slips, with amount of money received (deposits are required on all C. O. D. sales), are passed to the inspector. Each of the address coupons of the sales slip is stamped with the "part paid" stamp, and the inspector is required to sign on the face of the slip for the amount of money received. The original of the address coupon goes to the shipper, who compares it with the bill and uses it as a label on the bundle. The duplicate address coupon is filed in the adjustment office for reference. The sales slip, including the original voucher, is held by the inspector on a C. O. D. spindle until sent to the C. O. D. desk in the office to be copied on the bill. The duplicate sales slip, showing the items, the total, and the amount deposited, is given to the customer as her receipt. The duplicate voucher bearing the customer's name and the amount received is held by the inspector, with the money received, as a memorandum and is attached to the cash report at the close of the day's work.

The total of C. O. D. sales for each salesperson in each department is entered on Form 12 by the auditing office from the original sales slip. This original sales slip, it will be recalled, was sent from the inspector to the C. O. D. desk in the office. Here the C. O. D. biller makes out a bill from the sales slip after having noted that the slip is properly stamped and the amount of the deposit signed for by the inspector. When she has copied the items and name from these sales slips to the C. O. D. bill, the

C. O. D. biller forwards the slips to the auditing department, where they are audited for extensions and totals. After having been sorted by departments and salespersons, the totals for each salesperson are accumulated on a comptometer and entered in the proper space on Form 12. Here, as in the case of cash and charge sales, the C. O. D. credits for the day are deducted from the C. O. D. gross for the day to get the C. O. D. net for the day.

For the final report on each of these sales, that is, the report which goes to the merchandise manager and the firm about noon of the second day following the day to which the figures refer, the figures on Form 12 in the column headed "totals" for each department are carried on Form 14 and entered in the proper

	CASH			CHARGE			C. O D			TOTAL SALES			Luxury Tax	Excise Tax 10%	Excise Tax 5%	Net Tax
	Gross	Cr	Net	Gross	Cr.	Net.	Gross	Cr.	Net.	Gross	Cr.	Net.				
Total																

FORM No. 14. Mooney & Davis, Inc.—Store Totals

columns on the line for the department for which they apply. On this sheet totals for the store are shown at the bottom. For the report to the merchandise office and to the general manager, the figures on Form 14 are summarized on Form 15, "Auditor's Daily Recapitulation of Sales by Departments," which includes

Date ____________

Auditor's Daily Recapitulation of Sales by Departments

Department	GROSS SALES	CREDITS	NET SALES	
Total				

FORM No. 15. "Auditor's Daily Recapitulation of Sales by Departments"

only gross sales, credits, and net sales for each department and total sales for the store.

For a more permanent record showing the comparison of each salesperson's sales and wages during various weeks and for another record showing the comparison between sales and selling percentage for the different salespersons in a department each month, the figures shown on Form 12 are accumulated on the individual record card, Form 16, and later transferred to Form 17, salesperson's record, and Form 18, salesperson's record in department. On Form 16 entries are made direct from Form 12 in the columns for the date, credits, and net sales, and the number of sales is also entered. Gross sales are not copied on this form because they can easily be obtained, if needed, by totaling credits and net sales. Form 16 is printed on a card and is provided for every salesperson in the store.

At the close of each week a total is taken on Form 16 and carried to the salesperson's record, Form 17. The other data necessary to complete the form can be taken from the payroll or com-

Dept. Name No.

Date	Gross Sales	Credits	Net Sales	No. of Sales	Date	No. of Sales	Credits	Net Sales	No. of Sales	Date	Gross Sales	Credits	Net Sales	No. of Sales

FORM No. 16. Comparison of Individual Sales and Selling Percentage

puted from data shown on Form 17 after entries from these two sources have been made. Column 12, Form 17, "total amount received," is a percentage figure to net sales. The commission is paid every season on the season's work. Column 9, Form 17, "percentage credits to sales," is figured on gross sales.

For making a monthly comparison of the different salespersons in each department Form 18 is used, entries being made from

SALESPERSON'S RECORD

NAME ______ NO. ______ DATE ENTERED STORE ______

	Week Ending	Dept.	Fixed Weekly Wage	Days in	Gross Sales	Amount of Credits	Net Sales	Average Daily Sales	Gross No. of Sales	Percent. Credits to Sales	Regular Wages	Commission	Total Amount Received
		1	2	3	4	5	6	7	8	9	10	11	12

FORM No. 17. Mooney & Davis, Inc.—Weekly Sales Report

totals arrived at on Form 17. Calendar months are not used for comparisons; instead, the store employs 13 periods of four weeks each, no attempt being made to adjust the beginning or end of these periods to the calendar months. In addition to the monthly report on Form 18, a seasonal report is made. In

SALESPEOPLE'S RECORD IN DEPARTMENT

MONTH__________ SELLING DAYS__________ DEP'T__________

	NAME	Fixed Weekly Wage	Days In	Gross Sales	Amount of Credits	Net Sales	% Cr. to Sales	Gross No. of Sales	Average Daily Sales	Compare With Average Sales	Total Wages Earned	Selling %
		1	2	3	4	5	6	7	8	9	10	11
	Total for the Department											

FORM No. 18. Monthly Salesperson's Record

arriving at the commission to be paid at the end of the season, regular wages and salaries alone are considered.

Questions

1. Do Mooney & Davis get either too many or too few statistical reports on sales or involving sales?

2. If so, what changes in the existing system should be made?

3. In compiling the statistics which Mooney & Davis now obtain as outlined above, where could savings or short-cuts be effected?

Statistics 3

Van Valkenburgs, Inc.—Sales Peaks

Van Valkenburgs, Inc., is one of the leading department stores in a western city. Its building, located centrally in the retail district, has six floors and a basement. Five of these floors above the ground and about three-quarters of the basement are devoted to selling.

The store began business about 15 years ago with a stock of dry goods and ladies' ready-to-wear clothing. From time to time additional articles of women's furnishings were added, then men's departments and more recently furniture, kitchen ware, and house furnishings. Within the last two years a children's barber shop, beauty parlor, and a public information service have been established. At present the list of departments is as follows:

Women's coats	Rugs and carpets
Silks	Matting and linoleums
Men's hosiery and underwear	Dry goods
Small wares and hair goods	Women's hosiery
Women's gloves	Men's furnishings
Umbrellas	Muslin underwear
French underwear	Silk underwear
Knitted underwear	Handkerchiefs
Laces	Ribbons
Bedding	Wash goods
Millinery	Infants' and children's wear
Corsets	Upholstery
Boys' clothing	Boys' furnishings
Furs	Books
Trunks and bags	Toilet articles
Jewelry	Stationery
China and glassware	Sweaters
Women's shoes	Art embroidery
Toys	House furnishings
Woodenware	Neckwear and veilings
Furniture	Men's clothing

Leather goods
House dresses and uniforms negligees, bath robes, and kimonas
Silk and cotton waists
Sporting goods
Men's shoes
Women's tailored suits
Hardware and paints
Misses' dresses
Clocks
Talking machines and records
Kitchenware
Women's dresses
Photograph supplies
Patterns
Soda fountains
Children's shoes
Petticoats
Girls' coats and dresses
Fur storage
Misses' coats
Watches
Electric goods
Lamps

The following totals show the daily sales for the entire store for the two seasons of 1920:

Total Store Sales (Dollars Only)

Date 1920	Jan.	Feb.	March	April	May	June
1			48,835	44,176	41,740	35,819
2	33,957	22,191	41,130	43,788		27,805
3	35,657	24,973	30,334	67,741	29,451	27,101
4		15,983	28,131		26,952	37,480
5	27,660	3,372	32,969	24,667	34,295	34,244
6	31,132	6,846	13,417	31,408	25,831	
7	22,738	19,078		21,590	29,578	38,577
8	21,742		25,504	27,616	43,898	36,359
9	18,899	23,446	31,585	31,398		30,297
10	37,211	19,864	22,405	49,788	32,620	30,174
11		16,819	21,480		28,354	32,269
12	32,676	16,369	20,489	33,351	32,541	50,874
13	26,011	17,115	38,163	27,258	22,684	
14	24,063	32,448		25,442	27,407	37,973
15	18,064		36,112	30,167	46,286	33,623
16	23,848	34,310	36,016	34,697		40,869
17	32,552	22,709	44,663	54,248	67,116	
18		28,637	27,322		49,427	27,574
19	23,807	11,136	30,018		37,279	45,238
20	25,859	23,709	40,967	42,978	36,149	
21	31,442	37,687		33,270	35,145	44,817
22	21,517		35,912	27,941	47,308	42,353
23	19,557		40,165	23,060		33,667

Total Store Sales (Dollars Only)

Date 1920	Jan.	Feb.	March	April	May	June
24	31,360	30,599	31,143	46,224	37,788	31,507
25		12,827	32,119		34,182	33,986
26	25,230	22,346	33,634	31,351	37,272	44,084
27	20,391	18,732	75,068	32,195	30,838	
28	14,843	30,088		13,730	32,331	33,868
29	14,793		37,866	32,263	60,314	29,904
30	19,414		49,072	31,490		28,043
31	25,888		44,169			
Total	660,290	491,274	948,661	861,817	926,725	888,482

Total Store Sales (Dollars Only)

Date 1920	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	33,521		24,861	26,152	41,798	28,776
2	43,716	31,621	27,949	50,805	41,382	34,810
3		27,378	32,907		32,963	35,474
4		21,082	36,656	54,676	34,142	55,179
5		23,059		49,956	34,809	
6	37,917	27,028		37,663	69,679	46,095
7	24,162		45,242	38,539		54,952
8	25,443		21,391	36,939	47,193	46,354
9	32,925	21,924	21,094	59,178	42,798	37,959
10		22,393	18,738		46,884	37,816
11		16,635	35,879	42,390	41,671	67,373
12	29,553	24,063			38,312	
13	27,811	22,802	29,271	34,474	75,546	62,259
14	27,363		31,220	25,993		57,491
15	21,557		25,711	27,421	54,382	59,644
16	32,125	25,605	24,232	50,724	47,090	65,205
17		23,651	26,239		24,365	65,105
18		30,134	40,807	38,769	35,094	87,848
19	26,861	21,622		37,734	38,803	
20	26,112	24,190	47,593	35,683	58,016	79,432
21	21,561		39,622	26,752		85,974
22	23,091		37,264	24,500	38,605	66,701
23	23,746	33,573	27,723	49,387	24,092	58,336
24		30,004	23,157		27,994	47,459
25		22,836	39,314	34,116		
26	34,302	23,390		35,677	42,792	
27	26,696	24,668	27,884	23,785	155,765	50,609
28	20,098		28,983	23,808		46,183
29	21,423		14,108	38,699	43,939	41,145
30	24,915	32,734	23,132	57,584	43,714	40,272
31		30,838				39,476
Total	584,882	561,213	750,964	961,404	1,181,796	1,397,924

Questions

1. What different kinds of sales peaks are represented in these data?
2. Where do the various peaks come?
3. What data with respect to sales peaks should be presented to the chief executive?
   (*a*) How should these data be presented?
4. How could the store determine whether or not it would pay to take steps to eliminate these peaks, and what methods, if any, should the store adopt to eliminate them?

Statistics 4

Maynard Dry Goods Company—Daily Statistics on Stocks and Sales

The Maynard Dry Goods Company does a business of $9,500,000 annually in medium-priced dry goods and ready-to-wear. The store carries no jewelry, furniture, wall paper, pictures, kitchenware, or glassware. Its stocks are grouped into 52 departments.

At present the store is operating on the retail method of inventory, and on its merchandise ledger it shows monthly the stock on hand in each department. The management feels, however, that it should get more definite information on stocks and sales in order better to adapt its purchases to demand and to keep its stock clean and moving.

As an example of the sort of trouble which the management seeks to eliminate, a recent experience in the curtain department may be cited. The buyer for this department carried a stock of about $5,000 divided among yard curtain goods, lace curtains, manufactured scrim curtains, and cretonne curtains. The buyer made several fortunate purchases of manufactured scrim curtains, secured special advertising, and sold out these new

purchases very quickly. Having thus learned that there was a considerable demand for this type of merchandise, he again went to the market, purchased more of the same class of goods, and again put on a sale, using special advertising. As a result the sales for the department showed up well on the merchandise ledger. Practically all these sales, however, had been in one subdivision of the department, and the stocks in the other subdivisions were becoming dead and shopworn.

When this situation came to the notice of the merchandise manager for house furnishings, he asked the advertising manager to devise some means of preventing a recurrence of the situation. The advertising manager suggested that a report be prepared weekly which would show for each subdivision of each department the goods advertised, the paper in which the advertisement was placed, the cost of the space used, the sales of the merchandise, and the weather. In case no advertising had been used by a given subdivision of a department, the report would show only the sales for the week in that subdivision, and the weather. He suggested the following form:

Buyer	Dept.	Goods	Paper	Cost of Adv.	Sales	Weather
Mr. Brown	29	Curtain goods, yard	Herald	....	....	Fair Wed. showers
		Lace curtains	Herald	....	....	
		Mfg. scrim curtains	Times	....	....	
		Cretonne	Journal	....	....	

Questions

1. Are the data shown on this form sufficient to achieve the end desired?
   (*a*) If not, what additional data should be shown?
2. Should any other method of presentation be used?
3. How frequently should the report be made up?

Statistics 5

J. A. Swenson & Company—Delivery Statistics

J. A. Swenson & Company operates a department store in one of the larger cities of the North Central States. Its sales in 1920 were $12,043,775.34. This amount included the sales of leased departments of which there were four: talking machines, electrical appliances, a beauty parlor, and children's barber shop. The store sells for both cash and credit, and carries merchandise of medium and high-medium quality. In the city it has a reputation for giving good values.

In 1919 the Swenson store became a member of the Mississippi Valley Department Store Association. This association included in its membership 11 department stores doing a business of between eight and fifteen million dollars a year each. Although the selling and advertising policies and plans of organization and management varied in the different stores, the quality of the goods they carried and the clientele of each were essentially similar. The association believed that the stores were sufficiently similar so that it would be possible to compare figures; accordingly a system was worked out by which monthly and annual figures on sales and operating expenses could be exchanged and compared.

When the figures showing the percentage of various items of expense to sales for the year 1920 became available, Mr. Swenson, the president of J. A. Swenson & Co., found that in his store the percentage of delivery expense was considerably larger than in any other store in the association, in spite of the fact that he did not think that the amount of goods delivered in his store was much greater than the value of goods delivered in the other stores. On the face of things it appeared that there was some inefficiency in the operation of Mr. Swenson's delivery department; and he determined to make a careful study of his delivery department and its operating costs in order to learn whether or not there were any leaks. For the year 1920 Mr. Swenson had the following figures on delivery expense:

WAGES:	This item included the wages of all persons employed in the delivery room and shipping room, including packers, messengers, and boys sent through the store to collect "send" parcels. The wages of all drivers and drivers' helpers and garage men were also included.	$71,309.14
RENT:	This item represented that portion of the building rental which was allocated to the delivery and shipping rooms and also the garage rent.	3,662.00
INTEREST:	This figure was the interest at 5% on the net investment in equipment. It included also the interest on borrowed capital.	1,246.98
SUPPLIES:	Here were included expenditures for wrapping, packing, gasoline, oil, grease, tires, and other miscellaneous expense connected with the operation of the delivery room or the delivery equipment.	13,096.32
SERVICE HIRED:	This item included the hire of trucks and employees to handle peak loads, and parcel-post and freight delivery charges.	292.75
UNCLASSIFIED:	The figure for unclassified expense was made up almost entirely of damage and loss of merchandise in transit. Other expense not properly allocable to any of the classes listed was included, also.	1,584.40
REPAIRS:		17,564.89
INSURANCE:	This item included bonding charges, insurance against losses by accident, theft, fire or suit.	2,730.09
DEPRECIATION:	Depreciation of fixtures and the equipment in the delivery, sorting and shipping room, as well as depreciation on delivery equipment, were included in this item.	7,546.45

In 1920 the store operated 21 Ford trucks and employed 54 persons. Of these 54 employees 23 were drivers, 8 drivers' helpers, and 23 sorting room employees, platform men, messengers, collection boys, and other inside workers.

Questions

1. What statistical information should Mr. Swenson secure in order to learn whether or not his delivery expenses are higher than they should be?

   (*a*) Where could this information be secured?

2. What information should be secured regularly by the store in the future?

Statistics 6

The Landborg Company—Weather Statistics

Since January 1, 1915, the Landborg Company has been keeping a daily record of weather, wind direction, and temperature on the following form:

Month	Date	Day of Week	Remarks	Wind	Temp.	9-11	11-1	1-3	3-5:30	

In the column headed "remarks" is entered any special sale in the store; any important new events in the city, such as parades or strikes; any special events in the store which might affect sales, such as taking of inventory, or change in closing time; and such other information with regard to the conditions prevailing on the day in question as may help to explain any irregularities in the sales for that day.

In the columns headed "9–11," "11–1," "1–3," and "3–5:30" there is entered the weather prevailing during those hours. In making these entries the following words are used: fair, cloudy, showers, rain, snow, and hail.

In interpreting this record, the store assumes that the weather from 9–11 in the morning has practically no effect on the day's business. It is assumed that shoppers are not yet ready to leave home at 11:00, and if the weather is fair by 11:00 and remains fair for the rest of the day the store believes that, as far as weather is concerned, the business will be good. The conditions prevailing from 11–1:00 are, in the opinion of the merchandise manager, the conditions which largely determine the success or failure of the day's business.

This record has been made on every business day since January 1, 1915. The chief use of the record has been to explain low volume of sales on particular days and to determine whether or not high coal consumption and high light bills are justified by the conditions of temperature or cloudiness respectively. Also, the record has been used to a certain extent in making estimates for corresponding periods in the future. For example, if in 1918, on the days of the anniversary sales, the weather was cold and cloudy, it would be assumed that the sales of those days were smaller than they would have been had the weather been favorable, Therefore, in making an estimate for the corresponding month of 1919 it would be assumed that the weather would be fair. Thus the estimate for 1919 would be made somewhat higher than it would have been had the unadjusted figures for 1918 been used.

Questions

1. What additional use might be made of this information?
2. Does the Landborg Company's record give sufficient data on the weather?
   (*a*) Does it give too much data?
   (*b*) If it gives too little or too much, what changes should be made?

Statistics 7

W. K. Foley & Son—Daily Statistics on Salespersons in Chain Drug Stores

W. K. Foley & Son have a chain of 30 drug stores in three large cities in Ohio. The stores of the chain range in annual volume of sales from $30,000 to $125,000, and in number of employees from 4 to 12 in each store. All these stores are departmentized, the stocks being divided into the following seven departments:

Drugs and Prescriptions	Candy
Medicines (including patent medicines)	Hospital Supplies
	Cigars
Soda	Fancy Goods

On the floors above the original W. K. Foley & Son store in Cleveland the chain maintains a laboratory where it compounds a line of remedies under the brand "WKF." This line shows a handsome profit, and to increase sales the company is paying salespeople a "PM" of 4% on all sales of "WKF" goods.

To aid in the management, daily statistics are gathered in each of these stores for each salesperson. To stimulate the salespeople to greater efforts these statistics are shown in tabular form daily on the bulletin-board in each store. The statistics are:

1. Total sales for each salesperson.
2. Number of sales for each salesperson.
3. Average sales check for each salesperson.
4. Cost per sale for each salesperson (wages divided by number of sales).
5. Total sales for each salesperson in "WKF" goods.

Questions

1. Should any other data on salespeople be gathered for purposes of management and sales force control?
2. Should any other data be shown on the bulletin-boards?
3. Would the bulletins be more valuable as a stimulation to salespeople if these statistics were charted?
   (*a*) If so, what type of chart should be used?

Statistics 8

The Fair Department Store—Statistics on Salespeople in a Department Store

The Fair is a high-grade department store. Its annual sales are not far from $15,000,000, and of this amount the sales in the small wares departments are from 5% to 8%. These departments, which include drugs, perfumery, toilet goods, jewelry, notions, handkerchiefs, hosiery, and some others, employ from 100 to 125 salespeople and occupy a large proportion of the first floor. The store has 73 departments in all.

Mr. W. K. Foley, Jr., son of the founder of the chain of drug stores operating under the name of W. K. Foley & Son, is the controller of the Fair. He finds that in his small wares departments sales force payroll forms a percentage of net sales which seems to be extraordinarily high. He has been looking about for some method by which he can measure the efficiency of his salespeople in these departments and by which he can stimulate them to greater effort. In this connection he has been studying the statistics used in the Foley chain of drug stores for purposes of sales force control and salesperson stimulation; also he has talked to a number of his friends who are controllers of department stores in other cities.

It seems to Mr. Foley that the choice is between daily statistics similar to those gathered by his father's chain and weekly statistics similar to those gathered in one of the large New York department stores. This store shows the following data weekly, for each salesperson:

1. Number of sales
2. Total amount of sales
3. Average sales check
4. Average sales per day

These statistics are presented to the buyer of each department weekly and are posted weekly on the employees' bulletin-board.

Questions

1. Which system should the Fair Department Store adopt?
2. Should the system be applied to all departments?

Statistics 9

Bond and Brown—Record of Sales to Employees

Bond and Brown is the name of a large and progressive store in the $20,000,000 class. Its organization, policy, and methods are considered excellent by many department store men. One of the features of the organization is a successful statistical office, under the direction of the planning department. People who have had training with Bond and Brown are in demand by other stores.

Bond and Brown allow a discount of 20% to employees on all purchases, whether for themselves or their families. The discount is effective for purchases of marked-down merchandise. Employees are urged to avail themselves of the opportunities afforded by special sales and to spread the news among their acquaintances. Bulletins mentioning specific bargain merchandise are issued to everybody on the payroll of the store prior to important sales.

Recently a new merchandise manager came into the store. He did not approve of the policy regarding employees' discounts, and made a statement at a merchandise meeting to the effect that wherever he had worked previously department store executives were on the alert to see that the discount privilege was not abused. His contention was that Bond and Brown deliberately encouraged abuse. The new merchandise manager was then informed that the experiment of holding a sale without newspaper advertising had been tried. The results of the sale were satisfactory because the employees of the store, notified a week ahead of time of the merchandise to be included in the sale and the extent of the mark-down, told all their friends, relatives, and acquaintances. The new merchandise manager was not satisfied with this evidence. He maintained that some of the mark-downs were so drastic that the 20% discount meant actual loss.

Bond and Brown appeal to the best class of department store trade. During periods of stable prices sales are held only in midsummer and in midwinter. In times of declining prices, however, when business has been slow, there have been frequent special sales.

Questions

1. Should statistics be collected to show by departments the percentage of employees' purchases during special sales?
2. Are complete records of sales to employees by departments desirable?

A. STATISTICAL METHODS

2. STOCK STATISTICS

Statistics 10

The J. W. Lowell Company—Statistics

The J. W. Lowell Company operates a chain of grocery stores in the Middle West and of these 275 stores considerably more than one-half are in Chicago, where the firm has its warehouse and offices, and the other stores are scattered among surrounding towns within 100 miles of Chicago. In volume of sales the stores range from $400 to $1,600 per week. A store manager has charge of each store and he is the sole employee unless the sales volume warrants the hiring of assistants.

All the buying is done at the offices which are at the warehouse. The buyer depends for his information as to stocks upon daily oral reports from the men in charge of the respective floors in the warehouse and upon personal trips to the warehouse. This information, plus market conditions and judgment as to stocks in the stores, furnishes the sole guide in buying. In case of emergency the administrative offices may call for reports from all the stores as to stocks of a given commodity.

In the buyer's office there is kept what is called a purchase record. This record is kept on 7x10 cards ruled in the following form:

Date	Quantity	Contents	Firm	Brand	Price	*Discounts	F.O.B.	Net Cost	Remarks

*This is for advertising discounts, quantity discounts and for such other discounts as it is certain will be taken. Cash discounts are never entered here, but are treated as a management or financial profit.

Separate cards are used for all commodities and in some cases for each brand of each commodity. Entries to this record are made from the invoice after the invoice has been checked against the receiving slip. The chief use of this record is to show the invoice price and the net price per unit of each commodity, although the buyer can get information from the date and quantity columns with regard to the turnover of the commodity.

Practically all commodities are procured direct from the manufacturer—or at least from the same source order after order. Hence it requires practically the same length of time to get the goods on every order. About 80% of the commodities handled can be laid down in the warehouse within 24 hours after the order is placed. At present the company feels that there is very little danger of its being caught without a commodity, for even if the warehouse is out of stock, the stores are not likely to be. The reasons for this are:

1. The store manager always orders before he is entirely out.

2. If his stock does become exhausted he tells a superintendent who will move a temporary supply from another store.

3. If the warehouse is out of a commodity when a requisition is received from a store, the buyer can place his order and get the commodity in stock before the shipment to the store leaves the warehouse. This is possible because requisitions from the stores come in three or four days before shipments are made to the stores.

Overbuying is prevented by:

1. The fact that all invoices pass over the president's desk each morning.

2. The treasurer notes the size of invoice when signing the checks.

3. The total inventory in each store is computed and shown weekly. While this inventory shows the total stock rather than the stock by lines, it is considered an adequate check.

4. The superintendent in his daily visits to the stores is supposed to observe whether or not the manager appears to be overstocked in particular lines.

With regard to theft from the warehouse, the company feels that it is adequately protected, because to take goods from the warehouse without proper orders would require collusion on the part of six people, including the floor foreman, elevator man, the assembler (who assembles the orders), two final checkers, and the driver.

The company has felt that the methods outlined are accurate enough and that a balance system similar to that employed in factory storerooms is out of the question on the grounds that, with the multiplicity of items handled, it would be too complicated and that its cost would be prohibitive.

Questions

1. Should the company install a system for maintaining a perpetual balance of stock by commodities, by brands?
   (*a*) In the warehouse?
   (*b*) In the chain (that is all stores) and in the warehouse?
   (*c*) In the individual stores, the chain, and the warehouse?
2. If so, what should be the form for this record?
3. How should high and low points be determined?

References. Farquhar, H. H., *How to Regulate Materials*; *American Machinist*, June 24, July 15, and July 22, 1920; June 24, 1920—vol. 52, No. 26, p. 1338–40; June 15, 1920—vol. 53, No. 3, p. 101–4; July 22, 1920—vol. 53, No. 4, p. 151–2.

Statistics 11

Connecticut Avenue Specialty Shop—Daily Inventory

The Connecticut Avenue Specialty shop is located in a new retail district adjacent to the most exclusive residential section of a large city. In 1920 its sales were $2,432,657. This was a $12\frac{1}{2}\%$ increase over 1919, and indications were that the same rate of growth might be maintained for several more years.

The merchandise manager is giving very close attention to stock statistics. At the beginning of 1920 he installed a system of keeping daily stock records on forms of the following type:

Dept.......Article.......Price.......Material.......Date...........192..

Stock ~~25~~ 5 ~~20~~ 2 ~~18~~ ~~24~~ 4 20

On Order ~~25~~ ~~21~~ ~~15~~

FORM No. 19. Connecticut Avenue Specialty Shop—Daily Stock Record

Mark-Downs									Last Year		This Year	
Date	Qnty.	Cost	Retail	Date	Qnty.	Cost	Retail		On Hand	Sold	On Hand	Sold
								Aug. Feb.				
								Sept. Mar.				
								Oct. April				
								Nov. May				
								Dec. June				
								Jan. July				
								Total				

These records are made in his office from data furnished each day by the buyers. In the heading of the form used, the entries are as follows:

Dept.—the number of the department.
Article—gowns, bloomers.
Price—the retail price of the article.
Material—voile or satin.
Date—this is entered in pencil and denotes the date of last revision.

In the body of the form under the heading "Stock," a figure is entered at the beginning of the season to show the number of pieces on hand. At the close of the first day's business the sales for that day in pieces are entered in smaller figures a little above and to the right of the opening inventory figure. The old balance, which in this case was the opening inventory figure, is crossed out, and a new balance, which is the opening inventory figure less sales for the day, is entered to the right of the small figure for sales. This process is carried on day by day. Purchases are not entered separately on this record, but when goods are received the old balance is crossed off and a new balance entered without using smaller figures, thus showing the reason for the change in balance.

In the space headed "On Order" in the body of the form, there is entered the balance on order each day. No figures are shown to indicate why changes are made in this daily balance.

Under "Mark-Downs," the column headings explain the entries.

In the small space at the lower right-hand corner, under the column headed "On Hand," is entered the number of pieces in stock on the first day of the month. In the column "Sold" are entered the sales in pieces for the month. It is assumed that the stock on hand on the first of the month is a fair average inventory. In order that the form may be used for either the spring or the fall season, the names of two months are printed in the space for each of the stub items.

Question

Should any changes be made in this form?

Solution

The company has not yet solved the problem completely, but the assistant merchandise manager has a definite form in mind and this new form will probably be put into effect very soon. The plan is to include vertical rulings in the space headed "Stock" so as to provide 31 columns. The columns will be headed with numbers from 1 to 31. The stub will show the

six months of the season with a division similar to that used in the space at the lower right-hand corner of the present form to allow the form to be used for every season. The space in each column for each month will be higher than the space provided between any two of the lines on the present form and a small horizontal line will be drawn in dividing this space into two equal parts. In the part above this line will be shown the sales for the day. In the part below the line will be shown the new balance of stock. Space for Sundays will be used to show weekly totals.

Question

What criticisms do you make of this proposed solution?

Statistics 12

Appleton's Department Store—Mark-Up and Mark-Down Percentages

At the close of the spring season this year, Mr. Willard T. Ingleton, the controller of the Appleton Department Store, was approached by one of the store's buyers, who asked Mr. Ingleton to explain to him why the percentage of mark-up in his department for the spring season was so high. The buyer pointed out that according to the statistics furnished him he had secured a purchase mark-up of 38% and also that the statistics furnished him showed that he had taken mark-downs aggregating 8%. This being the case the buyer could not understand why his maintained mark-up was not 30%, that is, 38% minus 8%.

In reply the controller said that it was incorrect to deduct the entire 8% from the 38% because all the mark-down was not a loss, only that portion of the mark-down which was cost was a loss. In other words, to get the true maintained mark-up percentage, it would be necessary to deduct from 38% only

62% of 8%, 62% being the percentage of cost to selling price at the figure at which the goods were originally marked; 62% of 8% is 4.96%, therefore, said the controller, the maintained mark-up is 38% minus 4.96%, or 33.04%. The controller said:

Perhaps I can make this more clear by citing a case from our shoe department. The buyer there bought a pair of shoes for $12 and marked them to sell for $20; that is, he marked them up 40%. He found that he could not sell the shoes for $20, and marked them down to $16, selling them at that figure. Thus, his mark-down was $4, or 25%. Now, remembering that all he lost by the mark-down was the percentage of the mark-down which was cost, that is, 60%, we multiply the 25% by 60% and get 15%. This amount deducted from 40% equals 25%, the maintained mark-up percentage.

Questions

1. Was the controller correct in his calculation of the percentage of gross profit on goods marked down?
2. Was his explanation as clear as it might have been?
   (*a*) If not, how could he have made it more clear?

Statistics 13

M. K. Tomkinson & Company—Calculation of Mark-Down Percentage

In the statistics for last year furnished to Mr. H. K. Loomis, buyer of a shoe department in the M. K. Tomkinson & Company store, it was shown that his sales were $207,632.74. His mark-downs were 5%, or $10,381.64. At the close of the spring season this year, a similar report to Mr. Loomis showed that his sales had been $88,706.20, and his mark-downs $1,685.42, or 1.9%. In past years the sales of the shoe department had been almost equally divided between the spring and the fall seasons. Therefore, when the report for this year's spring season came in, Mr. Loomis saw that it was unlikely that he

could reach his volume for last year unless he took some radical steps to increase his fall business. In view of the fact that Mr. Loomis' commission was based on his maintaining or increasing his volume of sales year after year, he had plenty of incentive to increase the business this fall.

Mr. Loomis' sales last year were $207,632.74; this spring they were $88,706.20; therefore, if the sales for this year were to equal the sales for last year, Mr. Loomis would have to sell during the fall season $118,926.54. Mr. Loomis thought that, without arousing any adverse criticism from the firm, his mark-downs for this year could equal mark-downs for last year. That is, they could be 5% of the net sales, or $10,381.64. Deducting from this amount $1,685.42, the mark-downs which he might take during the spring, there remained $8,696.22, the mark-downs which he might take during the fall season. This amount was 7.3% of the $118,926.54 which he hoped to sell during the fall season.

In planning how he might increase his fall business, Mr. Loomis reasoned, "If I can take an average mark-down of 7.3% on my fall sales and still average only 5% for the year, why can't I take 14.6% or even 15% on one-half my merchandise and still average only 5% on the year's business?" Mr. Tomkinson decided that a 15% mark-down on one-half the merchandise sold during the fall would easily bring his business up to the $118,926.54 which he desired to reach. Fifteen per cent on one-half his fall sales, that is, 15% of $59,463.27, was $8,919.49. This sum represented the mark-downs which Mr. Loomis planned to take in the fall. To this amount he added $1,685.42, the mark-downs which he had taken during the spring season and the resultant sum $10,604.91 was 5.11% of the year's sales which he hoped to reach. Mr. Loomis felt that it would be quite possible for him to take a mark-down of 5.11% without being criticized, and he decided that he would plan to sell half his goods during the fall season at a mark-down of 15%.

Accordingly, when it came time to put on the sales, which Mr. Loomis had planned, he ordered that 15% of the marked prices be deducted on all shoes which were to be included in the sale. It happened that the volume of sales for the year was exactly the same as the volume of sales in the preceding year, and it happened that no mark-downs were taken save those which Mr.

Loomis took on the goods specially priced for the sales. Further, the goods sold at marked-down prices were just one-half the total sales.

When the statistics for both seasons of this year became available and were furnished to Mr. Loomis, he saw that his mark-downs had been 5.87% of his sales. When he noticed this Mr. Loomis went back over the figures which he had made in planning the fall's business. He found that the results with regard to sales had coincided exactly with his estimates, but he found that the percentage of mark-downs which he had planned was only 5.11%. He also found that the mark-downs in dollars were approximately $1,800 greater than the mark-downs which he had planned.

Questions

1. Why did this discrepancy in the mark-down percentages occur?
2. Which was right, the percentage computed by the buyer, or that computed by the office?
3. Where was the error in the other's work?

A. STATISTICAL METHOD

3. BUYING STATISTICS

Statistics 14

Huntington, Brown & Company—Market Information

Huntington, Brown & Company operates a specialty store. The firm has one of the best locations in the F Street shopping district and has recently erected a new building which gives unusually good display space both in the windows and in the interior of the store. This store has succeeded in putting on the market at a moderate price, goods which have a style appeal and

good quality, and its clientele is made up almost entirely of people who want style and exclusiveness, but who are unable to pay the prices usually asked at the small exclusive shops. The buyers visit the New York market weekly.

The store maintains an office in New York and the director of this office makes a report on Monday of each week covering the general conditions in the market during the preceding week. This weekly report is sent direct to the merchandise committee, which includes one member of the firm, the two merchandise managers, and the advertising manager. The general nature of this report is indicated in the following quotation, which is a copy in full of a report presented for the week ending June 25, 1921.

HUNTINGTON, BROWN & COMPANY

June 27, 1921

MARKET REPORT WEEK ENDING JUNE 25, 1921

New York Retail Conditions

Retail conditions were fair during the past week. Departments carrying small merchandise, such as hosiery, handkerchiefs, neckwear, gloves, etc., are doing particularly well. This is possibly due to the unusual hot spell. All types of wash dresses and aprons for women, misses and children were bought quite freely. There was not much demand for other types of garments.

Cotton Materials

The cotton market was very quiet this week, with the exception of the wanted checks and ginghams. There is a scarcity of this particular fabric and the prices are very high. This is usually the time for quotations on cotton materials for the coming spring. However, many of the mills claim that they are going to wait until August before submitting samples and quoting prices.

Woolen Materials

It is claimed that there are more people employed in the woolen goods industry than in any other line of textiles. It is reported that the mills in their fabric departments are preparing to show lines of spring men's wear. They are talking about openings for August 1st. Some few mills have already shown sample lines, but not in a large way. It is claimed that the jobbers are buying very little. The general trend of the garment industry is to buy for immediate wants only, with the exception of merchandise made by a few manufacturers and the production of which is limited.

Silk Materials

There was no change in the silk market during the past week. There seems to be a feeling that prices will be lower on silk materials for the coming spring of 1922 due to the cautious buying up to the present time and undoubtedly the same method of purchasing will be pursued during the balance of the year.

Knit Goods

Fibre silk knit sweaters are very big at present especially at $8.00 and $10.00 and are selling very freely. Manufacturers of same report that they are having a hard time to furnish their customers with all the merchandise wanted. Pure silk sweaters are reported to be selling quite freely also, the average price being about $35.00 retail.

Hosiery

Manufacturers of full fashioned silk hosiery seemed more hopeful last week and are now talking of making deliveries from July 15th on.

Coats, Suits and Dresses

This is an in-between season on these types of merchandise and buyers are now looking at new models prior to making their selections for fall.

Manufacturers claim that they do not expect much buying until after the fourth of July and quite a few are not showing their lines until after that date.

General

Sleeveless garments are still very active. However, there has been a decided falling off in the more expensive lines of this type of goods.

An advertised sale of silk gloves at $1.15 included gloves valued up to $5.00, but the majority from $2.00 to $3.50 qualities. All styles, including many novelties, were shown.

In talking with several salesmen in different lines of merchandise who have just returned from making their seasonal trips to different parts of the country, they claim that many of their old customers have deviated from their former method of carrying standardized lines. In other words they are buying price lines since the market started to decline and their reaction on this type of merchandising is that it will undoubtedly work injury to the stores who work this way and benefit their competitors who despite the declining market refuse to carry anything but standardized merchandise. They also complain that the average retail stores' stocks are very low and that it is hard for the general public to get what they want to buy for many times it is necessary to shop around a good deal to get what you want or else take some substitute article. Many of them quote their own experiences when trying to buy well-known merchandise for their own use.

Retail stores of New York City claim that they had an unusually good business on piece goods this season, silks, and cotton wash goods

in particular. Also, that their paper pattern departments are very busy. This would seem to indicate that there are still doubtful thoughts in the minds of the buying public that retail prices are low enough and undoubtedly many women are buying material and making up their own garments.

In addition to this regular weekly report, the New York office submits special reports direct to the buyers for departments concerned whenever that office is advised of especially good "buys," or sudden changes in market conditions.

The store places but little reliance in the market statistics and market interpretations in trade papers. In spite of this fact, it subscribes to practically all the trade papers. In addition, it receives the market forecast and market reports of the Babson Statistical Organization, the Brookmire Economic Service, and the Harvard Committee on Economic Research. The publications of these three services go to the office of the firm, but they are made available to the merchandise manager and to any of the buyers who care to consult them. As a rule, the reports are read regularly only by the members of the firm and the major executives.

The associates of Mr. Huntington, the president, consider him unusually progressive. In spite of the fact that no other store with which he has come in contact is getting market information as reliable and as complete as his own, he feels that he has gone but a short way in this field. In looking around to see what other statistics or information might be gathered, he rejected the statistics on raw material, because the price of raw materials did not seem to have sufficient influence on the costs of merchandise to warrant the collection and analysis of the figures. He was unable to find any information which was at all reliable on price tendencies in the garment industries and similarly he met with no success in an attempt to find statistics which might give him a clue to style tendencies, or to stocks and sales of various types of garments. When Mr. Huntington questioned his associates in the specialty shop business about this matter of market statistics, he received the reply that any statistics he might gather would be out of date by the time they were gathered. This would be true chiefly because at the height of the season merchandise is purchased in New York on one day, shipped by fast express that afternoon, and is marked and on display for

sale when the store opens the next morning. Of course, the store does not operate at this speed in all lines, but it is in these lines which have the highest turnover that statistics would be most valuable.

Questions

1. What statistics on market conditions would it be practicable for Mr. Huntington to have prepared?
2. What additional non-statistical information should he secure on market conditions?

Statistics 15

The Rayfield Department Store—Open-to-Buy Statistics for Buyers

The Rayfield store, in a Massachusetts city, is typical of the department stores doing a volume of from one to three million dollars. The sales of the Rayfield store average about $1,750,000 a year. Its stocks are designed to appeal to the factory-employed population of this city and vicinity.

In the past Rayfield's has collected only the simplest statistics. The management has always considered that the store's volume of business was too small to make profitable the gathering and analyzing of statistics other than those readily available from the financial books. Now, however, the growing volume of sales and increasing competition make it necessary that more attention be given to financial problems and to the investment in inventory. Mr. Harry Rayfield, the president and treasurer, accordingly has devised a method of planning the sales, stocks, mark-up, and purchases for the store and for the various departments for a season in advance. These plans are kept on file in the store office, and copies are placed in the office of each buyer. In order to tie up the performance of the department with the plan, Mr. Rayfeld desires a blank form for reporting to each

Dept. . . . . .Date. . . . .

Your stock first of this month was	. . . .
You had planned this to be	. . . .
Your agreed purchases for this month are	. . . .
Your outstanding orders for this month's delivery amount to	. . . .
Merchandise in transit amounts to	. . . .
Your deliveries this month to date amount to	. . . .
Your mark-downs this month	. . . .
Your stock at date is charged	. . . .
You had planned your stock end of this month to be	. . . .
Your sales to date this month are	. . . .
Your guaranteed sales for this month are	. . . .
Balance budget sales	. . . .
Total	. . . .
You are {open to buy / overbought} for this month at date	. . . .

Your agreed purchases and orders placed for the ensuing months are as follows:

Month										
Plans										
Orders placed										

Your guaranteed % mark-up end of season is	. . . .
Your mark-up on deliveries at date is	. . . .
Your mark-up is probably {over / short}	. . . .
You are {over / under} your sales quota to date	. . . .

ALL FIGURES ARE RETAIL

FORM No. 20. Specimen Form for Planning Statistics

buyer, either weekly or semi-weekly, the stocks, sales, orders outstanding, the amounts open-to-buy, and mark-up planned and that actually secured. For this purpose Form 20 on page 159, obtained from another store, is suggested.

Questions

1. What are the merits of this form for the purposes of the Rayfield department store?
2. What suggestions can you make to improve the information which Mr. Rayfield gets?

Statistics 16

Rogers & Tillinghast—Six Months' Estimates and Control of Purchases

The Rogers & Tillinghast department store in a very large western city is one of the largest shopping centers in the retail district. The store in 1919 had 76 departments and was doing an annual business of between $25,000,000 and $26,000,000. It carried the usual lines of dry goods, domestics, ladies' ready-to-wear, house furnishings, books, and stationery. It has recently established a successful series of men's departments, and the house-furnishing department is being extended to include glassware, crockery, and kitchen utensils. The store's restaurant is conspicuously successful in view of the fact that according to current reports no other department store restaurant in the city can be made to show a profit. The store's departments handling ladies' ready-to-wear have a good reputation. In fact, the other departments in the store were built up after the clientele had been established on these lines. In developing the ladies' ready-to-wear departments the store had devised a system of estimating sales, purchases, mark-downs, stocks, and profits for a season in advance, and it had used this system successfully

for a number of years. The merchandise manager was inclined to believe that the success of the department was largely due to the soundness of the system he had evolved and to the careful planning which it provided.

This system which the merchandise manager had developed included first, the planning of the business for the coming season on the basis of the record for the corresponding season of the preceding year; second, the recording of the performances of the

Period.................................to..................................Inc. Dept.. No.............

MONTH	Sept / Mar.	Oct. / Apr.	Nov. / May	Dec. / June	Jan. / July	Feb / Aug.	Mar / Sept	TOTAL
Ret. Stock 1st								
Last								
PLAN								
% Markup on Stock								
Last								
PLAN								
Retail Purchases								
Last								
PLAN								
Initial Markup								
Last								
PLAN								
Sales								
Last								
PLAN								
Markdowns								
Last								
PLAN								
Expense								
Last								
%								
PLAN								
%								

PROPOSED RESOURCES (Order of Importance) NAME	TERMS	FULL LINE PRICES
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		

FORM No. 21. Part Seasonal Records for Comparison

departments as compared with the plan; and third, the presentation to the departments of reports showing their standing with reference to their plan. The store ran its business in two seasons, one from September through February, and the other from March through August. The work of making the plans for a new season began about two months before the end of the preceding season; that is, early in July and in January the store would begin work on the plans for the following season. The first step in this work was to fill out Form 21. On this form were entered the figures for each of the seven items, for the last two seasons corresponding to the season for which plans were being made. For example, under the first item, "Retail Stock First Month," in making the plan for the fall of 1920 the store would enter in the first row the actual performance during the fall of

________________________ Department   Months ______ to 192 _______, inc. ___

	COST	RETAIL	Per Cent	COST	RETAIL	Per Cent	COST	RETAIL	Per Cent
Stock 1st period									
Purchases									
Sales									
Markdowns									
Stock end period									
Gross Profit									
Expense									
Mdse. Profit									

FORM No. 22. Final Department Plan for Approaching Season

1918 and in the second row the actual performance for the fall of 1919. The sheet bearing these figures would then be forwarded to the buyer, who would enter under each item, in the third row, his planned figures for the coming season; that is, the fall of 1920. Also, he would enter, in the space provided at the lower left-hand corner, the names of the firms from which he proposed to purchase the goods and the terms which he hoped to secure from each. In the lower right-hand corner he would enter the price at which he expected to carry a full line of sizes and colors. With this Form 21 properly filled out, the merchandise office, in consultation with the financial office and the adver-

ALL FIGURES AT RETAIL ....SELLING DAYS IN MONTH ....SELLING DAYS PAST DATE............. STOCK SHEET COMPLETED....................

		OPEN TO BUY						SALES				DELIVERIES		MARK-UP PERCENTS			MARKDOWNS				OUTSTANDING ORDERS										
Department Name	Dept. No.	Planned end of month stock	Open-to-Buy sales	Sales this year Month to date	Stock on hand today	Outstanding orders for month	Open to buy	Planned sales for month	Average necessary to attain planned sales	Sales last year month to date	Dept. No.	Since last report	Month to date	P1%	% to date this year	% to date last year	% 9/1 to date	For month to date this year	For month to date last year	Dept. No.	Total	This Month	Next Month	Third Month	Balance of Season	Next Season	Future	Hold	Foreign	Dept. No.	Department Name
		1	2	3	4	5	6	7	8	9		10	11	12	13	14	15	16	17		18	19	20	21	22	23	24	25	26		
TOTAL, FLOOR											Total									Total											TOTAL, FLOOR

tising office, would draw up on Form 22 a final plan for the department for the coming season. A copy of this plan would be retained in the merchandise office and one in the financial office, and a copy would be forwarded to the head of the department concerned.

This Form 22, in addition to being made out for each department, was made out for each floor of the entire upstairs store, for the basement store, and for the upstairs store and basement store combined.

After the season had begun, the actual record of the department was secured from the auditing office and the other offices and entered on Form 23. (See Insert II.) This form was made out twice a week in full, one copy for each selling floor, and one for the service departments, with a recapitulation showing the total for each selling floor for all service departments, and for the store as a whole. All figures were in black except when a department was overbought. In this case the entries in column 6 were in red. Whenever Form 23 was made up, department reports were made out from it on Form 24 and forwarded to the buyer or department head. Unless the buyer specially asked to see Form 23 at the merchandise office, he got only the data presented on Form 24. Through this system of reports and because of the rule that the merchandise office must O. K. all orders, the merchandise manager considered that he had adequate control over purchases. He made no attempt to determine whether or not buyers were securing their goods at the lowest prices prevailing in the market. He assumed that if the comparison office did not report other stores underselling Rogers & Tillinghast, and that if the buyers were getting the percentage of mark-up and the discount which the store required, their buying was on a satisfactory basis.

In order to determine the sources of the goods that were being marked down and in order to compare the percentage of mark-up secured on goods purchased from the various sources, the store compiled at the close of each year a report showing each source from which $10,000 worth or more of goods was purchased during the year by a single department. This report had six columns with the following headings:

1. Source
2. Department
3. Cost
4. Retail
5. Mark-downs in dollars
6. Percentage net mark-up (i. e. maintained).

In column one was entered the name of the source, whether it be manufacturer, wholesaler, or other. In column 2 was

DEPARTMENT REPORT

Department Number ________ Date

1. Your planned end of the month stock is ....
2. Your open to buy sales are ....
3. TOTAL (1 & 2) ....
4. Your actual sales this year for month to date are..............................
5. Your stock on hand today is ....
6. Your outstanding orders for the month are ....
7. TOTAL (4 & 5 & 6) ....

You are open to buy / overbought for the month (3-7) ....

Your planned sales for this month are ....

To attain planned sales your daily sales from this date must average ....

Your sales last year for month to date were ....

Your deliveries since last report amount to ....

Your deliveries for the month to date are ....

Your planned % of M. U. on purchases for month is ....

Your actual % of M. U. on deliveries for month to date this year is ....

Your actual % of M. U. on deliveries for month to date last year was ....

Your % markdowns since 9/1 to date is ....

Your markdowns for last year for month to date were ....

Your markdowns for this year for month to date are ....

Total outstanding orders are

Next Month	Third Month	Bal. of Season	Next Season	Future

All figures are at retail.

FORM No. 24. Buyer's Department Record

entered the number of the department which had purchased more than \$10,000 from this source. In column 3 was entered the purchases of that department at cost. In column 4 was shown the original retail price placed on this purchase. This figure was not shown in the table, but it was used in computing the percentage of net mark-up entered in column 6. To obtain the maintained retail, column 5, mark-downs in dollars, was deducted from column 4.

Questions

1. Do these statistics furnish satisfactory control over purchases?
   (*a*) Is the system too automatic and impersonal, leaving too little to judgment?
2. It was stated that this system was developed primarily in the ladies' ready-to-wear departments.
   (*a*) Is the system well adapted to the other departments in the store?
3. Should the store get additional information for comparing the various resources?

A. STATISTICAL METHODS

4. PERSONNEL STATISTICS

Statistics 17

Hastings Dry Goods Company—Personnel Statistics

The good results secured by improved personnel management in the industrial plants near a city in upper New York state were brought to the attention of the merchants in that city during the summer of 1919. The merchants were quick to observe that their relations with their own employees were far from ideal, and they determined to make a study of the methods being used in the factories in an attempt to adapt these methods to store personnel management. The Merchants' Association

named a committee, of which Mr. Walter Hastings, president of the Hastings Dry Goods Company, was chairman, to make this study. After an investigation covering several weeks the committee reported upon the methods then in use in the various factories and stated that none of these methods seemed sufficiently well adapted to the needs of the stores to make it possible to take it over bodily. The committee went on to recommend that each merchant prepare and submit to the committee a list of the reports on personnel that he felt were needed in his business.

The Hastings Dry Goods Company was one of the leading stores. It had 35 departments, with annual sales of about $1,425,000. Its stocks of ladies' and children's ready-to-wear accessories were the most complete in the city, and no other store had a better assortment of dry goods. The store carried a small line of glassware and kitchenware, and was just beginning to develop a home-furnishings department. Its employees numbered 253.

Mr. Hastings prepared the following list of reports which he felt were necessary to show personnel conditions in his business:

1. Remuneration to salespeople (monthly)
2. Remuneration to salespeople (yearly)
3. Number of employees on payroll by expense classification (monthly)
4. Number of employees entered, leaving, and changes in salary (weekly)
5. Amount and per cent to sales of total store payroll expenditures (yearly)
6. Length of employment, initial and present salaries (semi-annual)
7. Changes in number of employees (weekly)
8. Bonuses (weekly)
9. Bonuses and per cent to wages (monthly)
10. Commissions (monthly)
11. Salespeople's wages, commissions and PM's (semi-annually)
12. Payroll report (weekly)
13. Comparison of monthly sales and direct selling wages showing percentages by departments (monthly)

Questions

1. Should Mr. Hastings have included any other reports in this list?

   (*a*) If so, what reports?

2. Should he have recommended any reports to show errors or efficiency?

   (*a*) If so, what reports?

3. Should he have included reports to show the average sales per salesperson by departments and for the store as a whole?

   (*a*) If so, how should this average be computed in order to allow for part-time salespeople, salespeople on vacation, and extras employed during special sales or at Christmas?

   (*b*) How should data for these averages be computed?

Statistics 18

Johnson, McVeigh, Inc.—Analysis of Labor Statistics

Johnson, McVeigh, Inc., have been compiling statistics for the past two years on the number of employees leaving and the number of employees hired in each of the five classifications listed below:

Male salespeople
Female salespeople
Office employees
Juniors
All other employees

From these statistics the store has been computing the rate of labor turnover in each of the five classifications, and a study of these rates of turnover leads the controller to believe that more people are being hired and discharged in the female salespeople, office, and junior classifications than should be normally. From statistics in hand, however, he has no way of learning just why the turnover in these classes is high, and hence he has

no way of making improvements. He wants to know if employees are leaving for reasons which are preventable, or if most of the "lefts" are unavoidable. He wants, in addition, such other information with regard to people leaving the employ of the firm as will enable him to determine whether or not the turnover in a given classification is high, and if it is high, whether or not the firm is justified in taking steps to reduce it.

Questions

1. Into what major classes should employees leaving be divided?
2. What causes of leaving should the controller consider unavoidable?
3. Should the reports on employees leaving show age and length of service?

SOLUTION

The Jordan, Marsh Company, of Boston, in solving this problem, divided employees leaving into four classes:

Resigned	Discharged	Laid off	Unavoidable

Under resigned 12 causes were differentiated as follows:

Not satisfied with salary	Ill health—permanent
Not satisfied with work	Unable to get along with superior
Leaving city	Satisfactory reasons
Better job	
Home reasons	Unknown
Going to school	Ill health—temporary

Under discharged 10 causes were set up as follows:

Incompetent	Dishonest
Intemperate	References
Insubordinate	Other reasons (under generally undesirable)
Generally undesirable	Suspicious circumstances
Poor record	
Misconduct	

The employees laid off were divided into four classes by causes as follows:

Reducing help	Temporary employment	Physical	Vacation

Four unavoidable causes for termination of employment were recognized:

Getting married	Superannuated	Deceased	Voluntary vacation

The Jordan, Marsh Company decided that it wanted to know the age of employees leaving, and it gets this information by placing each person leaving the firm in one of the following eight age classes:

Under 16	17 to 20	20 to 25	25 to 30
30 to 35	35 to 40	40 to 50	Over 50

The company also decided that it wanted to know the length of service of employees leaving the firm, and this information is shown by classifying the employees leaving into the following eight groups, depending upon the length of time they have been with the Jordan, Marsh Company:

Up to one week	One year to two years
Two weeks to one month	Two to six years
Two months to six months	Seven to twelve years
Seven months to one year	Twelve to twenty years

For presenting this information to the executives, Jordan, Marsh Company has a report on a blue printed form which is issued monthly. This form shows the number of employees resigned, discharged, laid off and by unavoidable causes under each of the five major classes of employees, namely:

Sales	Office	General	Juniors	Executives

and the total for the store. This same form shows the number of employees leaving in each age group and in period of service for each of the five major classes and the total for the store.

Statistics 19

The Osgood Department Store—Labor Turnover Statistics

The Osgood Department Store, operating one of the leading department stores in an eastern city, has a permanent staff of 2,379 employees. Several years ago the store became convinced of the value of statistics on labor turnover. No other store was getting such data and the methods used in industrial firms did not seem well adapted to the store's needs. Hence, it began the development of a system suited to its requirements.

At the present time the store issues reports monthly on employees who leave the firm:

1. By five major classes of employees.
2. By four major classes according to method of termination of employment.
3. By causes for termination of employment.

The management feels that the information presented in these reports is not sufficient to enable it to secure the greatest possible efficiency in the administration of its personnel department. For example, it cannot be determined from these statistics whether the store is promoting employees from the ranks or whether it is hiring new employees for the better positions.

Questions

1. What information should the labor department gather to show whether or not the desired promotions are being made?
2. What other data are needed for a complete record of labor turnover?
3. Should the turnover records include employees transferred from one department to another and persons previously employed by the Osgood Department Store who are reemployed?

Solution

The Jordan, Marsh Company in answering these questions decided to show monthly, in each of the five major classifications of employees:

1. Number of newcomers; that is, the number of persons hired for the first time.
2. Number of returns; that is, the number of persons once employed by the company who were reemployed during the month.
3. Number of employees transferred from one department to another.

Under newcomers, in each of the five classifications of employees and the total for the store, the store's report shows the number hired at each of the following rates of pay per week:

$ 8.00	$14.00
9.00	15.00
10.00	16.00
11.00	17.00
12.00	18.00
13.00	Over $18.00

On the form the space provided for the number of people hired in the sales and office classifications at rates of pay in excess of $12 per week is ruled off. The $12 limit is selected because it is the highest wage paid to juniors. The concentration of newcomers in this ruled-off space indicates that a large number of employees are being hired at the higher rates of pay and that juniors are not being promoted.

The number of former employees returning to employment during the month in each of the five major classifications and the total for the store are grouped into seven classes based on the reason why they originally left the Jordan, Marsh Company.

These seven reasons are:

Personal affairs	Temporarily employed (that is in the previous case)
Personal illness	Vacation
Illness of a member of the family	Special
Laid off temporarily	

The number of transfers from one department to another for the month is shown in each of the five major classes of employees and the total for the store under the following 16 reasons for transfer:

Head not satisfied with work
Employee not satisfied with work
Unable to get along with superior
Discipline
Not congenial with fellow workers
Not satisfied with salary
Insubordination
Course of training
Better future prospects
Health
Physical (i. e., not physically qualified for position)
Age
Return to regular department
Reducing help
Help other department
Special

Statistics 20

Berry & Tinkham—Calculation of Labor Turnover

A coefficient to show the rate of labor turnover has long been recognized as an important statistical device in the study of personnel. It has been used particularly in industrial plants, but has not attained wide use among department stores. A number of different ways of calculating the coefficient have been developed, but perhaps the most nearly standard is to divide the number of employees hired during the period by the average number of workers employed in the plant during that same period.

A large store, Berry & Tinkham, whose business during the last five years has averaged $25,637,008 a year, has become very much interested in personnel study and especially in the rate of labor turnover. The store employs between 3,600 and 4,000 people. Its permanent staff consists of about 3,600, of which number 400 are buyers and executives. There are about 1,400 salespeople permanently employed, of whom about 80% are women and 20% men. In the general offices of the company and in the various departmental offices there are 650 clerical workers. Of these 77% are women, 11% men, 9% girls, and 3% boys. The drivers, shipping room employees, stable and garage men, janitors, window cleaners, elevator men, engineers, and other similar employees total slightly over 900. Of these 38% are men, 38% women, 15% boys, and 9% girls. The remainder of the permanent staff of the store consists of the 225 juniors, whose work is largely that of inspectors, wrappers, and cashier's assistants.

At the present time Berry & Tinkham keep no turnover statistics, but the store has directed the controller to calculate

the coefficient of labor turnover and to make such further study as he may think necessary as a preliminary to the establishment of some definite system of personnel statistics.

Questions

1. In calculating this coefficient of labor turnover should all employees be taken together, or should they be divided into classes?
2. If the latter, what classes?

SOLUTION

The Jordan, Marsh Company in solving this problem separated the employees into five major groups as follows:

Sales Offices General Juniors Executives

These classes were made because of dissimilarity in kind of work, wage system, rules of working, and working conditions, technical qualifications, source of labor, existence or non-existence of unions, and level of authority. For example, in the offices there are a number of trades or classifications of work which are more or less specialized: stenographers, comptometer operators, filing clerks, bookkeepers are examples. Among salespeople no such distinction exists.

The wage system in the office is obviously very different from that in the selling departments.

Again the fact that many of the employees in the "general" class are unionized gives to the class problems that are not common to the juniors or the executives.

B. GENERAL OPERATING STATISTICS

Statistics 21

Merchants' Association—Statistics for Store Comparison

The Merchants' Association includes in its membership department stores and specialty shops in cities of 25,000 and over. The association has never admitted as members stores with a sales volume of less than three-quarters of a million a year or more than three million. Semi-annual meetings of the entire membership are held. At these meetings there are addresses by leaders in the association or men brought in from outside, discussions of questions which are of timely interest to members, and small conferences of representatives from stores having common problems. At more frequent intervals, usually once a month or once in six weeks, district meetings are held in each of the three geographical districts; namely, northern, central and southern. These meetings, like the semi-annual meetings of the entire membership, are held in different cities and are given over to discussions very similar to those at the semi-annual meetings, with the exceptions that members are allowed to go into greater detail, and, because all members are in a geographical district which is more nearly a unit, all discussion can be on a more practical and more workable basis. In addition, a third group of meetings is held.

This group includes special gatherings held at convenient times and places for the discussion of special subjects of interest to a small group, which may or may not be contained within one of the three districts.

In its work previous to 1920, the association felt the need of some means by which it might secure a more searching comparison of figures for the various stores than was being secured by the statements of members in the discussions. In the spring meeting of 1920, the association named a committee to draw plans for a set of statistics which might be collected currently by the association.

This committee reported to the president two weeks before the meeting in the fall of 1920, and recommended that the following statistics be reported annually by each member to the secretary of the association:

1. Gross Sales

This item was to include the gross sales of merchandise in owned and leased sections. The receipts from a restaurant or a personal service department were not to be included. All amounts collected from customers for excise and luxury taxes were to be excluded from this figure.

2. Net Sales

This figure was to represent the real volume of business done, and was to be computed by deducting from gross sales the merchandise returned by customers and allowances granted to customers. This figure was to be taken as 100% in figuring the percentages of profit and expense mentioned later.

3. Salary Percentages

This group of statistics included the percentage of selling salaries to sales for each department and for the store as a whole, the percentage of non-selling salaries to sales for each department and the store as a whole, and the percentage of total salaries to sales for the store.

4. Average Inventory

This figure was to be computed by totaling the opening inventory and the closing inventory and dividing by two. In case a store had monthly book inventories, the average inventory was to be computed by taking the actual physical inventories for all months for which they were available, and adding to them the book inventories on all other months. To this total would be added the actual inventory at the close and this final sum divided by 13.

5. The Percentage of Administrative and General Expense to Sales

This percentage and those to follow were to be computed by the individual stores. In this expense was to be included salaries of executives, partners, the proprietor, or any others engaged in the general administration of the business. It was also to include salaries, wages, and expense items for the employment department, the complaint and adjustment bureau, the store service departments, the house organ, welfare bureau, the educational department, and the wages of telephone operators.

6. Per Cent of Office Expense to Sales

This expense item was to include the salaries and wages of the office employees including typist, stenographer, bookkeeper, and other clerical help, and also employees in the accounting, credit, and collection departments. All items of expense for supplies and the occupancy charges were also to be included.

7. Per Cent of Occupancy to Sales
This expense included all rent and occupancy charges which could be allocated to space used for selling departments and such non-selling departments as were not charged directly with occupancy expense.

8. Per Cent of Publicity Expense to Sales
This item included the salaries of the advertising manager, any assistants which he might have, the window trimmer, copy writer, artists, and other employees devoting all or part time to publicity. (In the case of an employee dividing the time between, say, selling and publicity, the salary was to be divided between the two classifications). This item also included occupancy charge for the office space occupied by the advertising department, and all items of expense incurred by the advertising and window-trimming departments. The expenditures for newspaper space, bill boards, car cards, circulars, and other media were also included here.

9. Per Cent of Buying Expense to Sales
This item included the salaries of buyers, assistant buyers, merchandise managers, and other help devoting all or part of their time to buying, the wages of part time employees being divided between the departments concerned in proportion to the time spent on the work of those departments. The salaries and expense of receiving, marking, and storing goods in reserve stock were included here.

10. Per Cent of Selling Expense to Sales
This item included all direct and indirect selling expense excluding delivery.

11. Per Cent of Delivery Expense to Sales
This item was to include all delivery and shipping room wages and expense on merchandise delivered to customers. In cases where incoming merchandise was brought to the store in delivery equipment a credit was to be made to delivery expense and a corresponding debit to Inward Freight and Cartage.

12. Number of Sales per Salesperson per Day
This figure was to be computed by dividing the number of salesperson days for the year into the number of transactions for the year.

13. The Volume of Sales per Salesperson per Day
This figure was to be computed in the same way as No. 12, except that the total net sales for the year was to be used instead of the total number of transactions for the year.

14. The Average Sale
This figure was to be computed by dividing the number of transactions for the year into the net sales for the year.

The committee recommended further that the merchandise classification of the stores in the association be standardized so that all stores would include the same merchandise in departments bearing the same name, and so that the larger stores which had subdivided their stock more minutely could, by combining several departments, secure classification which would be the same as that of the smaller stores.

The chairman of the committee presented his report to Mr. Justin W. Bolleigh, the president of the association, two weeks before the fall meeting in order that he might get Mr. Bolleigh's criticisms of the suggested statistics, and thus go into the meeting with the complete support and confidence of the president. Mr. Bolleigh, in studying the report, jotted down the following questions which he felt should be answered satisfactorily before he could give the report his unqualified endorsement.

Questions

1. Are the units suggested such that the figures will be truly comparable?
   (*a*) If not, what units would give the comparison desired?
   (*b*) Are they such that the comparison will indicate true differences?
2. Should any of these statistics be gathered more frequently than the committee suggests?
   (*a*) If so, how frequently?

Statistics 22

Anthony H. Mobray, Limited—Department Forecast

The store of Anthony H. Mobray, Limited, has a sales volume of nearly $16,000,000 a year. The 79 departments, which include the lines usually found in a complete department store, carry a high grade of merchandise and the interior of the store, the fixtures, and the displays, are of a character consistent with the quality and dependability of the goods. The service

given by the salespeople and the other employees is distinctly courteous.

Mr. Mobray built up this business in the later years of the 19th century and remained in active charge until his death in December, 1919. He was succeeded by the former merchandise manager, Mr. J. V. Shortwell. Mr. Shortwell had been in charge of merchandise operations for more than six years, but was not familiar with the financial books of the business. Furthermore, he had had no opportunity to become acquainted with the statistical methods of merchandise control. Mr. Mobray, a merchant of the old school, carried his statistics in his mind and had no faith in what he termed "the red tape of efficiency experts." Soon after Mr. Shortwell came into the presidency he saw that detailed plans and forecasts of sales, stocks, purchases, advertising, and profits for each department would be necessary if he were to finance the business on an economical basis. Accordingly, he called upon his accountant to devise a form which might be used in the store to compile the figures necessary to give the desired control of each department. In addition, Mr. Shortwell, himself, carried on an investigation to determine what information other stores were gathering for this purpose and what forms they were using to record the information.

As the result of the work of both Mr. Shortwell and the accountant, Forms 25 and 26 (see Inserts III and IV) were evolved. They were printed on the two sides of a 9x11 card, one card being provided for each department.

This department forecast was to be made up during the last month before the opening of the season for which it was made. After the form was filled out, the figures became effective only when they had been approved by the buyer, the merchandise manager, the assistant merchandise manager, and the treasurer. These men indicated their approval by signing in the space provided on the reverse of the card.

Then, during the season, as actual figures became available and were entered on the form, it was required that each buyer come to the merchandise office at a given time on a given day of each month to discuss the figures. Also, it was required that the form be sent to the treasurer's office on the first day of each month.

The form bore the following explanation:

DEPARTMENT FORECAST

The Successful Buyer Is The One Who Plans

Dept.____________________ Containing ______________________________

Fall Season 19______		SALES			PURCHASES AND PURCHASE LIMITS						STOCK		
		Last Year	Planned This Year	Actual This Year	Last Year	Limits This Year	Limit Adj. A/C Sales	Over or Under Limit	Limit Adjusted to 1st of Mo.	Actual This Year	Last Year	Planned This Year	Actual This Year
July	Month												
	Season												
Aug.	Month												
	Season												
Sept.	Month												
	Season												
Oct.	Month												
	Season												
Nov.	Month												
	Season												
Dec.	Month												
	Season												
TOTAL													

		ADVERTISING											GROSS PROFIT					
		Last Year	%	Planned This Year	%	Actual This Year	%	Number of Ads, Last Year	Number of Ads, This Year	Number of Papers Last Year	Number of Papers This Year		Last Year	%	Planned This Year	%	Actual This Year	%
July	Month																	
	Season																	
Aug.	Month																	
	Season																	
Sept.	Month																	
	Season																	
Oct.	Month																	
	Season																	
Nov	Month																	
	Season																	
Dec.	Month																	
	Season																	
TOTAL																		

FALL SEASON 192 ______	OUTSTANDING ORDERS AND OPEN TO BUY													
MONTH	June 30th		July 31st		August 31st		September 30th		October 31st		November 30th		December 31st	
July														
August														
September														
October														
November														
December														
Total Outstanding Commitments														
Amount of Limits Balance of Season														
Approved Addition to Planned Purchasing Limits														
Open to Buy Balance of Season														
Orders Outstanding for Next Season														
AVERAGE GROSS PROFIT PERCENTAGE (MARK ON) SHOWN ON INVENTORY AND PURCHASES AT RETAIL SEASON TO DATE														
Last Year														
Planned This Year														
Actual This Year														
AVERAGE GROSS PROFIT PERCENTAGE (MARK ON) SHOWN ON MONTHLY PURCHASES AT RETAIL														
Last Year														
Planned This Year														
Actual This Year														

Approved ______________________ Treasurer

Approved ______________________ Buyer

Approved ______________________ Mdse. Manager

Approved ______________________ Asst. Mdse. Mgr.

The information on this card is provided because an intelligent effort should proceed from a knowledge of facts. The planned results of the ensuing season must be carefully prepared by the department buyers, the merchandise managers, and the treasurer, and finally approved in writing. As the company's finances will be arranged for employment, accordingly the buying limits must not be exceeded without approved authority having been given in writing. All requests for deviation from the planned figures must be in writing, stating the necessity for the change. The store recognizes the fact that there will be times when for a good and sufficient reason the planned figures should be changed. It is the policy of the store to have well-assorted staple and regular lines of merchandise in stock at all times. Therefore, in placing orders we must make sufficient reservations from the limits to supply the current wants of regular lines throughout the season.

In explanation of the planned figures on the obverse of the card, the general manager made the following statements:

The figures entered in the column "Sales Planned This Year" depend upon:

1. The physical condition of the department. The size of the department and the opportunity to expand is taken into consideration, as is the equipment available.

2. The organization of the department. The cooperation of the buyer and his assistant, and the sales force, is a factor considered; also the necessity of making changes in the organization to provide for the planned sales.

3. The variety and assortment of merchandise. The store must note whether it is limited in buying power as compared with its competitors and if so it must be more careful to have a complete assortment of merchandise at the best selling prices.

4. General market conditions. The store must gather information from every possible source to determine whether or not the public is inclined to buy.

In case a department fails to reach these planned figures for several months the buyer is called into consultation with the merchandise manager to determine whether or not some sales stimulation such as a selling campaign, advertising, or special prices will help to bring sales up to the forecast. If it seems that none of these methods will secure the desired results, or if they are tried and do not secure the desired results, the merchandise manager and the buyer go over all the forecast sheets for past seasons which are available. If it is found that the department has constantly failed to meet its planned figures, an effort is made not to overestimate the amounts in the future.

Under the major heading "Purchases and Purchase Limits" the figures in the column "Limits this Year" are secured by computing the purchasing power of the department for the season, and this amount

is apportioned among the six months according to market conditions and the previous experience of the department. The method of arriving at the purchasing power for the season is simple. Suppose that a given department has an average mark-up of 33⅓%. Suppose further that the planned sales for this year are $150,000. This sum reduced to cost is $100,000. The planned stock on hand at end of season is $35,000. The stock on hand at the beginning of the season is $29,000. Then, planned sales, plus planned stock at the end of season, minus stock on hand at beginning of season, equals purchasing power. Using the figures just mentioned, we have $100,000, plus $35,000, minus $29,000, equals $106,000, the department's purchasing power for the season.

In the column "Limit Adjusted on Account of Sales" are entered figures showing the new purchase limits which are given a department if its sales exceed or fall short of the planned sales. For example, if the actual sales of a given department in a given month are $15,000, and the estimated sales for that month are $12,000, it is evident that the department can purchase goods which will retail for $3,000, without embarrassing the financial department. Hence, the difference between the actual sales and the estimated sales is reduced to cost ($3,000 reduced to cost at 33⅓% mark-up is $2,000). If the purchase limit planned for this same month was $8,000, this $2,000 difference is added, making the "Limit Adjusted on Account of Sales," $10,000.

In the column headed "Over or Under Limit" is entered the difference between the amount spent in any given month and the figure in the "Limits This Year" or "Limits Adjusted on Account of Sales" column. If the amount actually spent is greater than the final purchase limit for the month, the difference is entered in red; if it is less than the final purchase limit, it is entered in black.

In the column headed "Limit Purchased to First of Month" is entered the figure for "Limits this Year" for the given year, increased or decreased by the amount which the preceding month was over or under its limit.

Under the major heading "Stock" in the column "Planned this Year," the figures for the first month of the season are computed by adding to the stock on hand at the beginning of the season the planned purchases for the first month. From this total is deducted the planned sales for the month, reduced to cost. The resulting figure is the planned stock at the end of the first month. Using this figure in the same manner as the stock on hand at the beginning of the season was used, a new figure is computed for the stock on hand at the end of the second month of the season. This same process is carried through the six months. Thus, the planned stock is based upon the planned sales and if the actual sales vary from the planned sales, the department is studied and the figures adjusted. If the actual sales are less than the planned amount, either the stocks will pile up or purchases will have to be curtailed. If the latter course is adopted, great care must be exercised to keep assortments complete, and if it is found necessary

to add goods of a price range not provided for in the plans, the planned stock must be adjusted.

In making the estimates for the columns under the major heading "Advertising," a department with a well-established business which has carried a full assortment of merchandise for a number of seasons, and which has rendered uniformly good service, may be expected to do the estimated amount of business with only a small percentage of advertising. A new department, however, a department, the location of which has been changed, or one with a new merchandising policy must be allowed a larger percentage of advertising.

The amount and percentage of gross profit planned for the year depend upon three factors:

1. *The rapidity of turnover.*

   If the number of turnovers in the department can be increased, the store can secure as large a net profit in dollars at the end of the season with a smaller percentage of gross profit. Similarly, departments having a high rate of turnover can produce the same amount of net profit in a season, with a smaller percentage of gross profit, as a department with a lower rate of turnover could produce with a higher percentage of gross profit.

2. *The amount of reductions.*

   Obviously, a buyer who can secure merchandise which will sell with a small percentage of mark-downs can maintain a good rate of net profit with a smaller percentage of gross profit than a buyer who must take larger mark-downs. Similarly, if a buyer can reduce his percentage of mark-downs he can also reduce his gross profit without reducing his net profit.

3. *Department expense.*

   Any increase in the total expense of operating a department calls for a corresponding increase in the amount of gross profit. This can be obtained either by increasing the percentage of gross profit or by securing a larger volume of sales.

In computing these figures an average percentage of gross profit for the department is set, and this figure is adjusted to the various months according to previous experience. For instance, a higher rate of gross profit will be expected in months at the height, or just preceding the height of the season, than at the end of a season, when many mark-downs are necessary. The planned gross profit, of course, is figured on the planned sales.

Questions

1. Does the information gathered and recorded on the card designed by Mr. Shortwell and his accountant provide sufficient basis for the control which Mr. Shortwell desires to have?

2. Does Mr. Shortwell gather any unnecessary information? If so, what should be omitted?

3. Are the methods of computing and adjusting purchase limits sound?

4. Are there any statements in the explanation given by the general manager which are inconsistent with sound principles?

Statistics 23

McIntyre & Murphy—Forecast for Departments Created by Dividing a Larger Department

Up to February 1, 1921, the McIntyre & Murphy department store had included its hosiery and underwear lines in a single department. The business of the store had expanded during the preceding five years from slightly over $300,000 a year to about $1,250,000. With this increase in business it became both possible and desirable to secure greater refinement in the classification of merchandise. For this reason it was decided that, beginning with the spring season of 1921, the hosiery and underwear department should be divided so that all hosiery would be in one department under the old department head and all underwear in a second department in charge of a new buyer.

In the past, the store had prepared before the opening of each season estimates of the sales, purchases, stock on hand, markdowns, and percentage of cost of purchases to retail of purchases for each department. For the guidance of the management and the buyers in the hosiery and underwear departments, it was necessary in preparing the forecasts for 1921 to divide the estimates already prepared for the old hosiery and underwear department between the two new departments that were to be created from this one department. There was no statistical basis upon which this division might be made. The rate of stock-turn for hosiery differed from that for underwear, but to what extent was not known. It was impossible, therefore,

to make any estimate of possible sales in the two departments by working back from the opening inventory and the rate of stock-turn. The controller finally settled the matter by making a purely arbitrary division.

Table A shows the record of operations in the old hosiery and underwear department for the years 1919 and 1920. It also shows the estimates for this department for 1921. These estimates are the ones which were divided arbitrarily to provide working quotas for the two new departments.

Table B shows the estimates for 1921 as divided between the hosiery department and the underwear department. It also shows the figures for the first part of the season in each department in such a manner that the actual operation may be readily compared with the estimates.

Both tables follow on pages 184 and 185. In both tables the figures for inventory represent the inventory at the beginning of the month for which the figures are given. Hence the figures for February, 1919, show the inventory February 1, 1919, which is the opening inventory for the spring season, and the figure for August, 1919, is the inventory August 1, which is the closing inventory for the spring season and the opening inventory for the fall season. The figures for purchases, sales, sales to date, mark-downs, and cost of sales dollar refer to the month for which they are given. In table A the figures for 1919 and 1920 are actual figures. The figures for 1921 are estimated.

In table B the figures marked E 1921 are estimated and those marked A 1921 are actual. In this table the letter H after an item in the stub indicates that the figures are for the hosiery department and the letter U after an item in the stub indicates that the figures are for the underwear department. In both tables the figures shown for mark-downs are in dollars. The figures shown for cost of sales dollar are obtained by dividing the cost of purchases for each month by the retail price of purchases for that month; 100% minus the cost of sales dollar gives the per cent of mark-up on the purchases for the month.

Question

Were the estimates for the old hosiery and underwear department for 1921 correctly divided between the two new departments?

TABLE "A"

Hosiery and Underwear

Item	Year	F.	M.	A.	M.	J.	J.	A.	Spring
Inv.	1919	29,311	28,700	32,076	31,789	32,974	33,775	37,090	....
	1920	55,394	58,031	65,069	68,998	66,262	59,262	50,443	....
	E 1921	27,100	26,800	27,550	28,000	27,500	26,900	24,400	....
Pur. (at retail)	1919	3,586	8,648	4,892	8,345	8,442	8,847	....	42,760
	1920	8,087	13,810	12,716	7,839	4,165	3,640	....	50,257
	E 1921	4,250	6,650	8,400	8,400	9,120	7,380	....	44,200
Sales	1919	3,995	4,692	5,158	6,660	7,144	7,092	....	34,741
	1920	5,015	6,579	8,753	9,689	10,555	10,551	....	51,142
	E 1921	4,500	5,850	7,900	8,750	9,500	9,500	....	46,000
Sales (Cum.)	1919	3,995	8,687	13,845	20,505	27,649	34,741	....	34,741
	1920	5,015	11,594	20,347	30,036	40,591	51,142	....	51,142
	E 1921	4,500	10,350	18,250	27,000	36,500	46,000	....	46,000
M. D.	1919	11	17	13	23	15	22	....	101
	1920	16	41	22	353	174	477	....	1,083
	E 1921	50	50	50	150	220	380	....	900
Cost of Sales Dollar	1919	65.6	66.4	63.3	65.0	64.0	64.1	....	
	1920	66.8	63.5	64.6	66.0	66.6	66.0	....	
	E 1921	65.6	65.6	65.5	65.4	65.5	65.4	....	

TABLE "B"

			F.	M.	A.	M.	J.	J.	A.	Spring
Inv.	H.	E 1921	13,200	14,000	15,250	16,000	16,000	16,000	14,400	....
		A 1921	14,100	13,782	13,537	11,499	12,600			....
	U.	E 1921	13,900	12,800	12,300	12,000	11,500	10,900	10,000	....
		A 1921	12,176	11,040	11,615	11,685	11,682			....
Pur. (at retail)	H.	E 1921	3,330	5,180	6,080	5,960	6,650	5,150	....	32,350
		A 1921	4,550	6,040	4,966	8,544			....	
	U.	E 1921	920	1,470	2,320	2,440	2,470	2,230	....	11,850
		A 1921	1,199	2,696	2,418	2,656			....	
Sales	H.	E 1921	2,500	3,900	5,300	5,850	6,500	6,500	....	30,550
		A 1921	4,766	6,180	6,958	7,394			....	
	U.	E 1921	2,000	1,950	2,600	2,900	3,000	3,000	....	15,450
		A 1921	2,261	2,096	2,323	2,616			....	
Sales (Cum.	H.	E 1921	2,500	6,400	11,700	17,550	24,050	30,550	....	30,550
		A 1921	4,766	10,946	17,904	25,298			....	
	U.	E 1921	2,000	3,950	6,550	9,450	12,450	15,450	....	15,450
		A 1921	2,261	4,357	6,680	9,296			....	
M. D.	H.	E 1921	30	30	30	110	150	250	....	600(2%
		A 1921	102	86	45	29			....	
	U.	E 1921	20	20	20	40	70	130	....	300(2%
		A 1921	74	20	24	43				
Cost Sales Dollar	H.	E 1921	66.0	66.0	66.0	66.0	66.0	66.0	....	66.0
		A 1921	66.8	64.0	65.0	65.2				
	U.	E 1921	64.0	64.0	64.0	64.0	64.0	64.0	....	64.0
		A 1921	66.6	64.2	61.2	60.3				

TABLE "A"

A.	S.	O.	N.	D.	J.	F.	Fall	Year	
37,090	44,278	48,889	52,456	54,613	51,325	55,394	....	....	
50,443	51,312	56,826	57,093	50,001	36,235	26,276	....	....	
24,400	26,000	27,800	33,100	35,325	27,300	23,700	....	....	
13,497	10,036	10,499	9,512	9,676	12,007	....	65,227	107,987	
8,929	15,544	10,898	5,648	3,703	3,373	....	48,095	98,352	
9,270	9,920	14,010	11,905	6,565	4,185	....	55,855	100,055	
6,270	5,368	6,926	7,338	12,917	8,093	....	46,912	81,653	
7,619	8,097	8,487	9.565	14,431	7,276	....	55,475	106,617	
7,600	8,050	8,500	9,550	14,400	7,350	....	55,450	101,450	
6,270	11,638	18,564	25,902	38,819	46,912	....	46,912	81,653	
7,619	15,716	24,203	33,768	48,199	55,475	....	55,475	106,617	
7,600	15,650	24,150	33,700	48,100	55,450	....	55,450	101,450	
19	13	16	17	44	739	....	848	949	
108	1,404	1,091	2,673	2,780	5,273	....	13,329	14,142	
70	70	210	210	190	435	....	1,105	2,005	
62.5	63.7	63.4	61.0	63.7	66.7	....	....	....	
67.7	65.2	65.5	65.3	67.9	66.5	....	....	....	
65.6	65.5	65.3	65.2	64.8	64.8	....	....	....	

TABLE "B"

A.	S.	O.	N.	D.	J.	F.	Fall	Year	
14,400	16,000	17,800	22,100	24,000	16,800	14,200	....		
10,000	10,000	10,000	11,000	11,325	10,500	9,500	....		
7,950	8,250	10,950	8,700	3,950	2,430	....	42,230	74,580	
1,320	1,670	3,060	3,205	2,615	1,755	....	13,625	25,475	
6,300	6,400	6,500	6,700	11,000	4,700	....	41,600	72,150	
1,300	1,650	2,000	2,850	3,400	2,650	....	13,850	29,300	
6,300	12,700	19,200	25,900	36,900	41,600	....	41,600	72,150	
1,300	2,950	4,950	7,800	11,200	13,850	....	13,850	29,300	
50	50	150	100	150	330	....	830 (2%)	1,430	
20	20	60	30	40	105	....	275 (2%)	575	
66.0	66.0	66.0	66.0	66.0	66.0	....	66.0	66.0	
63.0	63.0	63.0	63.0	63.0	63.0	....	63.0	63.6	

Statistics 24

The Kirkland Company—Departmental Control

In the Kirkland department store the buyer for each department is furnished by the Controller's office each week with the following slip completely filled out:

> Buyer will please sign and deliver this sheet on Monday morning to the officer of the corporation to whom he reports, and make any necessary explanation.

	______ Week	
	This Year	Last Year
Sales	....	....
Stock	....	....
% This Week	....	....
% To Date	....	....
Reductions this Week	....	....
% To Date	....	....
Average Sales Check	....	....
Adv. Week	....	....
Adv. To Date	....	....
Salaries	....	....
% To Date	....	....
Discount Earned	....	....
% To Date	....	....
% Refunds	....	....
Discount Added	....	....

____
Buyer

FORM No. 27. Kirkland Department Store—Buyer's Weekly Report

Questions

1. What is the source of each item on this slip?
2. What purpose does each serve?
3. What other data are necessary for the complete control of the department?
4. Would it be feasible to put such other data on this slip?

Statistics 25

Handel Bros.—Monthly Operating Statement by Departments for Department Store

Handel Brothers operate a department store doing an annual business of $10,534,000 in one of the large cities on the Pacific coast. They have 49 departments and specialize in men's and women's ready-to-wear. In women's ready-to-wear the company carries a line put out under the private "Handel Brothers" label. The store carries a high and high medium grade of goods and draws the best trade of the city. The store is furnished elaborately, and the management has long been a leader in giving service. It maintains attractive restrooms with free telephone service and stationery; maids are in attendance to assist ladies; and nurses care for children while the mothers are shopping. The company makes a careful investigation of all applicants for credit, but once an account has been opened credit is extended liberally. Free delivery is made to all points in the city.

At present the store compiles a monthly report, on a form as shown on the next three pages, of operations in each department and in the store as a whole. Each buyer receives a copy of the report for his department, and the management receives a copy of the reports for each department and for the store as a whole.

In making up the reports for the individual departments, under the heading "Indirect Expense," there is shown the amount of indirect expense apportioned to that department. The indirect salaries and commissions are apportioned on four bases depending on how these expenses are incurred. These four bases are: Space, incoming purchases, outgoing merchandise, and sales. For example, porter and janitor wages are apportioned on space occupied, receiving and marking wages on incoming purchases, wages of wrappers and examiners of "send" parcels and wages of boys collecting "send" bundles are distributed on the basis of outgoing merchandise, and wages of wrappers, examiners, and floor men, if not directly chargeable to a department, are divided among the departments concerned on the basis of sales. Delivery expense is apportioned on the basis of number of packages delivered. Restroom expense, rent, supplies, indirect advertising, traveling supplies, telephone,

Month______________19______ Page______

Department______________ Space and Location 19____ 19____

Merchandise Manager____________ Buyer and Assistant____________

Classification	%	19			19			%
Merchandise on Hand, 1st—Cost								
Merchandise on Hand, 1st—Retail								
PURCHASES:								
Net Cost								
Discounts								
Balance to Make 10%								
Freight and Express In								
Transfers								
Workrooms								
Petty Cash								
Total Purchases—Cost								
Total Purchases—Retail								
Turnover								
Mark-Ups								
Mark-Downs								
Inventory Shortage Allowance								
Merchandise on Hand, 31st—Cost								
Merchandise on Hand, 31st—Retail								

Classification	%	19			19			%	
DIRECT EXPENSE:									
Selling Salaries*									
Selling Commissions*									
Selling P.M.'s									
Non-Selling Salaries									
Rent									
Fixtures (Depreciation and Upkeep)									
Interest on Investment									
Advertising*									
Supplies									
Freight and Express (Out)									
Light and Heat									
Insurance									
Traveling									
Suppers									
Sales Discounts									
Telephone, Telegrams and Postage									
Cashiers, Over and Short									
Sundries									
Gross Sales									
Returns									
Exchanges									
Net Sales									
Increase or Decrease									
Number of Sales									
Average Sale									
Gross Profits									
Per Cent, Sales									
Direct Expense									
Per Cent, Sales									
Net Profit (Not Including Purchase Discounts)									
Per Cent, Sales									
Net Profit (Including Purchase Discounts)									
Per Cent, Sales									
Net Profit (Including Indirect Expense)									
Per Cent, Sales									

*REMARKS: In direct expense, percentages are computed reguarly for starred item only.

Classification	%	19			19			%	
MARK-DOWNS:									
Advertised Specials—Net									
Stock M. D.'s—Net									
Friday Specials—Net									
Anniversary Sale—Net									
Inventory Shortage Allowed—Net									
INVENTORY:									
Short or Over January 31st									
Short or Over July 31st									
January 31st—First Retake									
January 31st—Second Retake									
July 31st—First Retake									
July 31st—Second Retake									
INDIRECT EXPENSE:									
Salaries									
Commissions									
Delivery									
Restroom									
Including Telephone, Stationery, etc.									
Rent									
Advertising									
Supplies									
Insurance									
Traveling									
Suppers									
Telephone, Telegrams and Postage									
Cashiers, Overs and Shorts									
Sundries									
Total Indirect Expense									
SALES:									
Handel Bros.									
Anniversary									
Advertised Specials									
ACCUMULATED SALES:									
February 1st to——									
Increase or Decrease									
Per Cent Increase or Decrease									
Number Sales									
Average Sale									

telegraph, and postage, cashiers' overs and shorts, and sundries are distributed on the basis of sales. Insurance on stock is distributed on the basis of average inventory. Employers' liability insurance is distributed on the basis of payroll.

Questions

1. Should any statistics be added to or omitted from this group?
2. Should any changes be made in the form?

Statistics 26

Dry Goods Emporium—Computing Average Rate of Gross Profit and Average Rate of Expense

The Dry Goods Emporium is a department store in an Ohio city of 200,000 population. Although the store had been growing rapidly in the three or four years just preceding 1920, it had continued its original policy of carrying only such lines as were closely allied to dry goods. The sales, the percentage of gross profit, and the percentage of expense for each of the 10 departments of the Emporium were as follows in 1920:

Department	Sales	Per Cent of Gross Profit	Per Cent of Expense
1	$117,750.00	.2565	.2277
2	703,320.00	.2426	.2179
3	445,843.00	.2606	.2167
4	174,616.00	.2350	.2437
5	187,988.00	.2268	.2685
6	327,911.00	.3399	.3055
7	144,465.00	.4035	.3768
8	144,044.00	.2981	.2485
9	296,792.00	.2711	.2261
10	310,073.00	.3216	.2591

Questions

1. What was the percentage of gross profit for the store as a whole?
2. What was the percentage of expense for the store as a whole?
3. What was the percentage of net profit for the store as a whole?

C. PRESENTATION OF STATISTICAL INFORMATION TO THE CHIEF EXECUTIVE OR TO SUBORDINATES

Statistics 27

McDonald Specialty Store—Statistical Comparison of Sales Volume

The McDonald Specialty Store handles women's ready-to-wear apparel. Mr. Preston, the assistant controller, has been called to account continually by the controller on the ground that his store is not getting its share of the business of the city. Mr. Preston knows that the McDonald store has increased its sales 50% during the past year and he wishes to show the growth of his store compared with the increase in retail sales in the city of Columbus. For this reason he wishes to develop a system of charts which will show the growth in retail sales in Columbus compared with the increase in the sales of his store. He also desires to compare these two charts with the increase in the sales of his different departments.

To obtain the right system Mr. Preston secured the assistance of the Gordon Statistical Organization. The Gordon Organization brought to Mr. Preston several charts showing the comparison of the sales of his store and of the various departments in his store with the total retail sales of the city for the past year. These charts were on semi-logarithmical paper. The controller,

however, is of the old school, unfamiliar with modern statistical methods. He did not understand these new charts and objected to this newfangled paper with its confusing cross lines set at irregular intervals. The buyers also objected to these charts on the ground that they could not understand them, nor could they be sure that the controller was not putting something over on them.

Mr. Preston is anxious to present these semi-logarithmical charts in a manner in which they can be readily understood. If this is not possible, he desires to present the charts on coordinate paper in such a way that the ratio between the curves will show the facts of the case and will not be distorted.

Question

How can this be done?

Solution of Problem on Statistical Comparison of Sales Volume

1. The following system was used in educating the officials in Washington during the World War to the proper use of semi-logarithmic charts:

A semi-logarithmic chart with light yellow cross lines was used without the scale being printed on the side. Actual figures which it was desired to present were placed in table form at the top of the chart. Graphs were then drawn on the chart which were reproduced by photographs. The cross lines were eliminated. The table gave the actual figures for the purpose of comparison and the graphs gave the general trend.

2. The use of coordinate paper is possible if a percentage basis is used. These percentages can be figured easily by the use of a slide rule; but this scheme is liable to prove expensive because of the extra amount of clerical labor required in its use. The best method, therefore, is to sell the controller the idea

of the value of semi-logarithmic paper by a concrete illustration; for example, $1 at simple interest of 10% will double in 10 years, or $5 at the same rate would amount to $10. If this problem is charted on coordinate paper the $5 item appears to double more rapidly and, therefore, to be receiving a higher rate of interest than the $1 item. If these items are next charted on semi-logarithmic paper it will be seen that the graphs are parallel, indicating that the rate is actually the same. Unless semi-logarithmic paper is used for this kind of comparison the graphs will distort the facts of the case and correct conclusions cannot be drawn.

Statistics 28

Baker & Baker Co.—Statistics

The Baker & Baker Company operates a chain of 190 grocery stores in eastern Michigan and northwestern Ohio. Since the establishment of the chain in 1909 a record of the sales in each store each week has been kept at the administrative office. When the figures for the current week become available a form is filled out showing for each store the sales for this week compared with the sales for the corresponding week of last year. Each store manager is kept informed of these comparisons and each is expected to show for the current week an increase over the period for which comparison is made. During the years before 1920 when prices were generally rising, store managers found no difficulty in meeting the requirements of the firm in this respect. However, when prices turned downward, in June and July, 1920, managers found it increasingly difficult to make sales at the lower prices then prevailing bulk larger in dollars than the sales for the corresponding week in the preceding year, when prices were higher—and this in spite of the fact that the tonnage in the latter year may have been higher. The lower the prices went the greater the difficulty became; stores showed a steady failure to meet the quota; and store managers grew discouraged. By the third week in May, 1921, the volume of sales for the chain, in dollars, had reached a low point and it was decided that beginning with this low week the company would use the sales for the preceding week for a quota instead of sales for the corresponding week of the preceding year. The change

was made solely to eliminate the depressing effect on the managers of a quota which it was impossible to reach.

In the reports to the president, sales were now given for (1) the current week, (2) the preceding week, (3) the percentage of change from the preceding week, and (4) sales for the corresponding week of last year, while formerly the president had received figures on sales for the current week, sales for the corresponding week last year, and the percentage of change.

Questions

1. Was this change in method of comparison in accord with good administration policy?
2. Are there any statistical considerations involved?
3. Was it sound policy to use the corresponding week of last year as a basis of comparison during the period of rising prices?

Statistics 29

The Park Company—Monthly Statement of Chain Shoe Stores

The Park Company has a chain of 48 shoe stores located in cities of 100,000 inhabitants and over, in the region east of the Mississippi and north of the Ohio and Potomac Rivers. The stores carry all lines of medium- and high-grade shoes for men, women, and children. All shoes bear the Park brand, and a number of years of conservative management have established a reputation for good quality and reasonable prices. All the stores are managed from the Boston office of Mr. Park. He spends most of his time in the office, but he makes about two visits a year to each store to keep in touch with that store and to secure personal contact with the manager. More frequent contact and more detailed supervision is secured through two assistant managers, whose headquarters are in Boston. These men spend practically all their time on the road and visit each store at least once a month.

All goods are shipped from the warehouse of the company in Boston. The managers of each store order styles and sizes at their own discretion, subject to the advice of Mr. Park.

Previous to January 1, 1921, Mr. Park received monthly reports for each store and the aggregate from the chain. These statistics, plus a monthly book inventory for each store in dollars (computed as follows: stock at the beginning of the month plus goods received less sales) constituted the statistical reports to Mr. Park. The statistics were supplemented by oral and written reports from the assistant managers as necessary, and by personal observations.

Beginning with January 1, 1921, the reports by stores were discontinued and Mr. Park received only one report, made out on the form below, showing the aggregate amounts for the chain.

	Current Year			Same Period Last Year		
	Month	Accumulated to date	%*	Month	Accumulated to date	%*
GROSS SALES						
Less Allowances						
Discounts on Sales						
Total						
NET SALES						
COST OF SALES (at Inventory)						
Add Freight, Express and Cartage						
Depreciation of Merchandise						
Total						
NET MERCHANDISE COST						
GROSS PROFIT ON MERCHANDISE						
EXPENSES						
Selling—Salaries and Wages						
P. M.						
Window						
Advertising						
Wrapping						
Total						

*All percentages are based on sales for the month.

Delivery Expense
Management:
Salaries and Office Wages
Office Supplies
Total
Fixed:
Rent
Heat, Light and Power
Insurance on Stock and Equipment
Taxes
Repairs and Maintenance of Equipment
Depreciation of Equipment
Total
MISCELLANEOUS EXPENSE
TOTAL OPERATING EXPENSE
NET PROFIT
INTEREST
SURPLUS OR DEFICIT

Furthermore, in the column headed "%" instead of the percentage of the item to sales, there was shown the amount per pair of shoes sold. All the data issued previously were still available in the accounting department, but were not presented. Mr. Park still received the monthly book inventory of each store, a new weekly report on sales by stores and for the chain, and a new monthly report on sales for the month compared with the corresponding month of the preceding year. No other statistics were furnished him.

Questions

1. Should the company have continued to get the data on the attached form by individual stores as well as for the chain as a whole?

2. Was the change from the percentage of sales to the amount per pair in accordance with sound policy?

   (*a*) Was it statistically sound?

3. After June 1, 1921, did Mr. Park need more statistical reports than he received?

   (*a*) If so, what reports?

Statistics 30

Daniel Cole & Co.—Form for Combining Reports from Chain Stores

Daniel Cole and Company operates a chain of 110 grocery stores. The stores carry a full line of staple groceries, dry vegetables, and bulk goods. Each store is in charge of a store manager who may have one or two part-time assistants, or one full-time assistant and one part-time assistant.

Two district supervisors are over all the stores. Each district supervisor has under him three superintendents who in turn have charge of from 15 to 20 stores each. The superintendents must visit daily all the stores assigned to them.

The company gets weekly reports from each store on such items as:

- Balance of merchandise on hand
- Sales
- Percentage of mark-up on goods taken from warehouse
- Percentage of store wages to store sales
- Percentage of store supplies to store sales

For comparing the individual stores in each of the above respects, that is, in balance of merchandise on hand, sales, and so on, the following form is used:

	Mr. Black			Mr. Brown			
Supt.	1	2	3	4	5	6	Totals
	139	38	1,429	62	2,179	144	Supt. 1
	274	302	1,058	3,712	19	1,183	" 2
	536	204	1,256	113	130	91	" 3
	341	614	1,680	138	274	296	" 4
	235	1,346	24	300	357	8½	" 5
	285	1,675	9	197	517	77	" 6
	915	1,408	437	46	254	414	
	117	2,827	1,630	6	24	349	
	413	456	307	41	131	2,900	
	49	313	362	146	498	2,838	
	440	303	471	1,980	1,337	158	
	235	112	656	654	2,069	43	
	718	126	727	1,352	385	714	
	334	527	2,078	4	678	337	
	565	169	70	4,250	34	1,673	
	1,680	415	74	536	506		
	1,411	1,062	542	760	453		
	135	518	382	4,254	25		
	520	1,569		710			Total, 192
	986	29		1			Total, 192
				1,250			Gross Gain Loss
							New Stores
Total							Net Gain Loss
	No. Stores	No. Stores	No. Stores	No. Stores	No. Stores	No. Stores	Disc.
	Gain Loss %	Gain Loss %	Gain Loss %	Gain Loss %	Gain Loss %	Gain Loss %	Stores Gain %

Leading Superintendent Date. . . . . 192. . . . . . Leading Supervisor

. . . . Date. . . . . 192. . . . .

Mr. Black is the district supervisor in charge of superintendents 1, 2 and 3, and Mr. Brown is the district supervisor in charge of superintendents 4, 5 and 6. The printed numbers under each superintendent are the numbers of the stores of which he has charge.

In making entries the data for the current week are entered under each superintendent at the right of the column of figures indicating store numbers, and the data for the period with which comparison is being made are entered at the left of the store numbers without any further designation at the top of the column. The nature of the information entered on the form is indicated in writing at the bottom of the form, somewhere near the space provided for dates.

Question

Is this form well suited to its purpose?

(*a*) If not, suggest a substitute.

Statistics 31

Campbell & MacGregor—Weekly Statistics by Division Managers in a Department Store

The Campbell & MacGregor Department Store in a large eastern city has annual sales of approximately $12,000,000. The store draws a high and high-medium class of trade and has built up an excellent reputation for quality. The price appeal enters into its methods of merchandising very little, if at all.

The store is divided into 54 departments, which are grouped into 10 divisions with from 4 to 6 departments in each division. At the head of each department there is a buyer who has charge of both buying and selling, and over each division there is a division manager. Typical divisions are, Men's Wear, Shoes, Small Wares, and Dry Goods.

In order to compare the various divisions and the work of the various division managers, the management secures weekly a

report which contains the following items, all comparisons being with the corresponding week of last year:

1. Percentage of increase in total sales.
   Division managers are ranked in order of the magnitude of the percentage increase.
2. Increase in gross profit in dollars.
   Division managers are ranked in order of the size of the increase.
3. Percentage of gross profit to sales.
   Division managers are ranked in order of the magnitude of the percentage.
4. Decrease in direct expense in dollars.
   Division managers are ranked in order of the magnitude of the decrease.
5. Percentage of expense to sales.
   Division managers are ranked in inverse order of magnitude of percentage; that is, division managers with the smallest percentage of expense rank first.
6. Percentage of merchandise profit to sales.
   Merchandise profit is computed by deducting expense in dollars from gross profit in dollars. Cash discounts are not included in gross profit.
   Division managers are ranked in order of magnitude of percentage.
7. Increase in merchandise profit in dollars.
   Division managers are ranked in order of magnitude of figures.

This report is typewritten, there being no printed form. Under each of the seven items the division managers and the figures for their divisions are arranged in order of their standing for the current period, and figures are shown, on the left, against each division manager's name to indicate where he stood in the rating during the period with which comparison is being made. To make the form of the report more clear, the figures for a sample week on the first of the seven items would be as follows:

	Percentage of Increase in Total Sales	
4	Mr. Nichols	87.3
1	Mr. Rathburn	66.0
3	Mr. Blake	54.3
2	Mr. Preston	54.0
5	Mr. Perkins	30.3
6	Mr. Pringle	16.0
7	Mr. Fazel	9.7
10	Mr. Gillett	8.6
8	Mr. Wilcox	5.0
9	Mr. James	2.1

The sheet bearing all statistics for each of these items is sent weekly to the management and to each division manager. It is usually ready on Wednesday of the week following that for which the report is made.

Questions

1. Is this report sufficiently complete to allow the management to get a fair comparison by division?
2. What items should be added or dropped?
3. Are the units well chosen?

Statistics 32

Thurman Company—Monthly Statistics to Buyers

During the years 1915 to 1920 inclusive, the Thurman Company furnished each of its 83 department heads with the following monthly statistics. These statistics were sent to the buyers in pencil on rough work sheets. There were no printed forms.

The statistics were:

1. Rate of expense.

   The 8% of direct expense to sales for the department for the current month.

2. The amount of mark-downs in dollars.

   This figure included only mark-downs on goods that had been placed on sale. It did not include adjustments in the retail price or cancelations of mark-ups made before the goods were placed in forward stock.

3. The rate of mark-downs to sales for the current month.

4. The prospective rate of gross profit for the month.

   This figure was the ratio determined by dividing the opening inventory plus purchases at retail by the opening inventory plus purchases at cost.

5. The prospective rate of gross profit to date.

   Here instead of using opening inventory for the month the store used opening inventory and purchases for the year to date.

6. The increase or decrease in sales for the month over the corresponding month of the preceding year.

7. The increase or decrease in sales for the year to date over a similar period for the preceding year.

8. The increase or decrease in per cent of payroll expense for the current month over the corresponding month of the preceding year. It is to be noted that this figure is not a percentage. It is the difference between two percentages.

9. The percentage of increase or decrease in number of transactions for the current month over the corresponding month of the preceding year.

10. The actual direct expense allocated to the department by items, excepting payroll.

    These statistics showed the actual amount charged to the department for the month for such items as supplies, advertising, rent, delivery, and insurance.

The Thurman store carries jewelry, trunks and bags, leather goods, kitchenware, china and glassware, furniture and home furnishings, toys and novelties, in addition to dry goods, and small wares, and a complete line of ready-to-wear clothing for both men and women. It has no grocery or drug departments.

The sales for the store were $25,034,690 in 1918, $26,170,531 in 1919, and $24,864,263 in 1920.

Questions

1. Should any other statistical information have been furnished to the buyers?

2. Should information have been furnished more frequently?

Statistics 33

Harley & McDurfee—Wall Charts in Executive Offices

In the summer of 1921 Mr. J. N. Harley, a son of one of the proprietors of Harley & McDurfee and then a junior executive in the company's store, concluded that he, and perhaps some of the other executives, were not getting a satisfactory impression of the store's business from the figures which were compiled in the store. For this reason Mr. Harley devised a series of charts which would present a picture of the essential features of the business. These charts were amended and revised in consultation with the other executives and major stockholders, and a working plan was adopted.

According to this plan 16 charts and one table were placed in the merchandise office and one chart in the office of each department throughout the store. One of the charts in the merchandise office was for the purpose of comparing the sales in each department with that department's quota, and for comparing each department's record with respect to its quota with the store's record with respect to its quota. This chart was on a combined monthly and seasonal basis, the monthly basis being brought to date daily and the seasonal basis weekly. The other 15 charts showed by 15 series of vital statistics the record of the store as a whole for the preceding five years. The table showed the percentage of mark-up secured in each department and in the store as a whole for each month of the current season and the total for the season.

The monthly sales chart, 7′ 3″ wide and 9′ high, used for comparing each department's sales with its quota, and the departmental performance with the store's performance, was a horizontal-bar chart with 83 rows, the top row for the store as a whole, and the other rows for the 82 departments. At the left-hand side of the chart there were columns for the names of the departments, for the monthly quota, and for the daily quota, and at the right-hand side, one column for the season quota and one for the department name. The central part of the chart was divided into 27 equal columns, one for each selling day in the month. On the chart the row representing the stores as a whole was divided into 27 equal columns as was the space belonging to each department. Here, however, each space

represented a week of the season, only 26 of the 27 spaces being used. In each row of the chart, that is, for the store as a whole and for each department, there were plotted two bars, a wide bar plotted in the upper portion of the space to represent the performance of the store or the department with respect to its monthly quota, and a narrow bar in the lower portion of the space to represent the performance of the store or department with reference to its seasonal quota. In comparing the standing of the various departments with each other or with the store as a whole the wide bars were comparable only with wide bars and the narrow bars only with narrow bars. The wide bars were always plotted on the scale of 27 selling days and the narrow bars on the scale of 26 selling weeks. It is evident that the same horizontal distance in two rows did not represent the same amount of money. Where it did, that fact was purely accidental. The horizontal space represented by one selling day or one selling week represented in dollars the monthly quota divided by 27, or the seasonal quota divided by 26. These quotas were not likely to be the same for any two departments.

For ease in reading the chart sliding arrow heads were provided at the top and bottom of the chart. The arrow at the top of the chart was moved horizontally to indicate where the seasonal bars should be if up to quota. Similarly, the arrow at the bottom of the chart was moved to show where the daily bars should be if up to quota. The horizontal bars showing both the seasonal and the daily position were formed by unwinding ribbons which were wound on spring spools concealed behind the chart at the left-hand edge of the chart proper. A pin in the end of each ribbon held the ribbon in position and marked the point to which progress had been made.

Each space in the chart where entries were to be made or where figures were to be changed was in the form of a slot in which a card bearing the proper entry could be inserted. Spaces of this kind were those for the names of departments, those for monthly, daily, and seasonal quotas, and those for figures representing the selling days.

The 15 charts, for presenting the 15 series of vital statistics on the business as a whole and showing each series for five years, were alike in size and general description. Each was contained in a wooden cabinet with a hinged glass door similar to a cup-

board door. The chart itself consisted of two major parts; the upper two-thirds of the space in the cabinet showed five horizontal bars, each representing the figures for one of the five years in one of the 15 series and the lower one-third of the space within the cabinet provided 14 slotted divisions of equal size, each of them intended to hold a card on which would be plotted a smaller bar chart for each one of the 14 series other than the one shown in full size above. Thus each cabinet showed a large picture of one of the 15 series and small pictures of each of the other 14 series. In all these charts the years were placed in rows with the last year at the bottom. Changes in the variable were indicated by varying distances to the right of the base line, which was at the left of the chart. In all spaces where entries were to be made slots were provided so that entries might be made on cards and slipped into the spaces. Similarly the spaces for the bars were slotted so that pieces of colored cardboard of various lengths might be slipped into place to represent the length of the bar. Each of these charts was 39″ long and 28″ high.

In this series of 15 charts the following statistics are presented:

1. Volume of sales
2. Number of sales (i. e., number of transactions)
3. Average sale
4. Average stock carried
5. Turnover
6. Gross profit mark on (i. e., purchase mark-up)
7. Gross profit maintained (i. e., maintained mark-up)
8. Slow-selling merchandise on hand at end of year
9. Per cent of purchase discount secured to sales
10. Per cent of advertising to sales
11. Per cent of mark-downs to sales
12. Per cent of general expense to sales
13. Per cent of charge sales to total sales
14. Per cent of cash sales to total sales
15. Per cent of C. O. D. sales to total sales.

The one remaining exhibit in the merchandise office was the table showing the per cent of mark on (i. e., purchase mark-up)

obtained in each department and in the store as a whole for each month of the season and for the season as a whole. This table had eight columns, one for the names of the departments, one of each for the six months of the season, and one for the season as a whole. The table had 83 rows, one for each department and one for the store as a whole. All spaces were in the form of slots, so that the names of the departments and the figures in any space might be changed by inserting a new card. In making the entries, if a department or the store as a whole secured a mark-up for the period equal to or in excess of the quota, the entry was in black. If the mark-up secured was below the quota, the figures were in red.

The charts in the office of each department were made on the same general plan as the large sales chart in the merchandise office, that is, the chart first described, except that in these departmental charts the row corresponding to that for the store as a whole in the merchandise office chart was used for the performance of the department as a whole, and the rows corresponding to those for the various departments were used for the various salespeople. The chart was the same length from left to right as the departmental chart in the merchandise office. From top to bottom, the charts were usually shorter, because there were rarely more than 20 salespeople in a department.

In planning these charts Mr. Harley thought that the salespeople would be unable to understand a complicated system of horizontal bars and that they would be confused particularly by the fact that the length of the bars indicates the standing with respect to the quota rather than total sales in dollars. Hence, he eliminated the ribbons from these charts, and instead provided slotted spaces in the body of the chart as in the table, for percentage of mark-up. In the columns for each day were entered the sales for the store as a whole and for each salesperson for that date. Just below the figure there was inserted a black pin if the department or the salesperson was equal to or ahead of the quota. If the department or the salesperson was behind the quota, a red pin was inserted.

Mr. Harley realized that this method of presentation was open to criticism because it did not show cumulative figures. He believed, however, that this disadvantage was more than offset by the fact that the chart could be understood by the salespeople.

Questions

1. Does the monthly sales chart in the merchandise office present the data in the clearest and best manner possible?
2. Should separate charts be printed to show the standing with respect to the seasonal quota and the monthly quota?
3. Does the exhibit of the 15 smaller charts present those data to best advantage?
4. Would one larger chart with 15 small divisions of equal size answer the purpose?
5. Was Mr. Harley probably correct in assuming that the salespeople could not understand a monthly sales chart like the one in the merchandise office?

   (*a*) If so, was the chart he provided the best substitute?
6. What are the advantages and disadvantages of presenting these data in permanent wall charts?
7. Should all have been presented graphically?

D. ORGANIZATION OF A STATISTICAL DEPARTMENT

Statistics 34

Merchandise Control Through Statistics or Accounting

The Donald McDonald Department Store has an annual sales volume of $978,000. The manager of this store, Mr. Wilson, has built up his organization over a period of several years until now he has a force of experienced buyers. In merchandising this store Mr. Wilson has relied upon his own judgment and the common sense of his buyers as to market conditions rather than upon any accurate method of telling the amount of goods on hand, the amount sold during the month, or the amount of goods on order. In fact, there is no set method of estimating

sales, but each buyer is allowed to purchase any reasonable amount of goods that he thinks he can sell.

After attending a retailers' convention in Chicago, however, Mr. Wilson has become convinced that his store is being operated in a slipshod fashion, and he desires to put in a system which will remedy this condition of affairs. His accounting friends tell him that the only sure way to get a proper method of merchandise control is to install a detailed system of accounts. Mr. Wilson realizes the value of accounting, but he does not think that it alone can solve all his troubles. The stock-turn is so rapid in some departments that the data furnished by the accounting department when the books are closed at the end of the month comes too late to be of value.

A representative of the Jackson Statistical Agency, which specializes in systems for department and retail stores, called recently upon Mr. Wilson. During the interview the statistical agent said that all accounting does is to record ancient history. The agent went on to explain that it might be interesting to look at the past records, but that Mr. Wilson might as well try to merchandise his store on the history of the World War as to rely upon such out-of-date figures as his accountant could give him. Mr. Wilson was still unconvinced; so the agent again called upon him a few days later accompanied by the superintendent of the statistical agency who made the following statement: "In a modern store the control is through statistics rather than accounting. Because of the rapid stock-turn, statistics, or even careful estimates, are better than the accurate past history furnished by the accounting department too late to be of use."

Mr. Wilson wishes to know if he should rely on accounting to give him sufficient data for merchandise control.

Questions

1. Should he install a statistical system to secure the desired result?
2. In the question of stock control, how much depends upon accounting and how much upon statistics?
3. Is it possible to draw a definite line between accounting and statistics, or does each depend upon the other?

Statistics 35

Manhattan Markets, Incorporated—Statistical System for Chain Grocery Stores

Manhattan Markets, Incorporated, is a California corporation owning and managing a chain of 213 grocery stores. They are opened as one-man stores, as a rule, and, when sales increase, a boy or a part-time man is secured to assist the manager afternoons and Saturday evenings. Where the volume of business warrants it a full-time assistant is employed.

All stores of the chain have similar fronts. They are painted a distinctive, uniform color, and the window arrangement is as nearly standardized as physical variations in the stores will permit. All window displays are uniform throughout the chain. Inside, the layout is standard for all stores. Counter and shelving displays are arranged in accordance with bulletins issued to all the store managers by the central office.

Every store is open from 8:30 a. m. to 6:30 p. m. daily. On Saturday the stores are not closed until 9:00 a. m. During the summer, the stores close Wednesday afternoons at one. In the one-man stores, the manager is expected to close one hour for lunch, but on Saturday evenings he must bring his dinner to the store.

The stores carry an unusually complete line of staple and semi-staple groceries and a considerable number of items which might be called fancy. The company has no bakery, but all stores carry bread purchased from one of the large city bakeries. No other bake-shop products are carried except biscuits and crackers, and similar articles which do not quickly become stale. The stores stock dry vegetables, but have adhered definitely to a policy of carrying no green vegetables or fresh fruits.

All purchases are made at the central office, located at the warehouse. Practically all merchandise is delivered by motor truck from the warehouse. Some small items, such as crackers and biscuits, are delivered direct to the stores by the manufacturers. Store managers make no purchases, but order goods on requisition from the warehouse weekly, or more often, if necessary.

The stock in the company is closely held, practically all shares being owned by members of the board of directors. There is

no chairman of the Board, but the president of the company, or his assistant, presides at board meetings. The president of the company acts as general manager. Under him is the treasurer and assistant president, who is in active charge at the office. Next in authority is the stores manager, who is the vice-president, the purchasing manager, the office manager, the warehouse manager, and the employment manager. The stores manager has under him four district stores managers, and each of these has under him three superintendents. Each superintendent has charge of from 15 to 20 stores. He has a small car and is expected to visit daily each of the stores under his supervision. In his daily visit the superintendent notes whether or not the stores manager has complied with the recent bulletins sent out from the central office. He checks the manager's cash report for the previous day, notes whether or not the store is overstocked or understocked in any particular line, and in general supervises the details of management.

The purchasing manager is in charge of all buying for the chain, with three buyers to assist him. One of these buyers handles butter, eggs, tea, and coffee; the second, canned goods and flour, and the third, general groceries. The office manager has the task of supervising the office force, and the responsibility for all filing, billing, and store inventories. The warehouse manager has charge of the entire warehouse force, is responsible for the goods kept in the warehouse and for the motor trucks, their drivers, and the safe delivery of merchandise to the stores. The employment manager has charge of personnel, including hiring, disciplining, education, and promotion.

The president of the company, who owns almost one-half the stock, has extensive mercantile interests in other important business connections in southern California. He is forced to give much of his time to these other interests. For this reason he needs a complete and yet condensed system of statistical reports on the Manhattan Markets.

Question

What should be included in a system of statistical reports to provide the president with all the information of this type that he needs?

Statistics 36

Arlington Stores, Inc.—Weekly Operating Statistics for a Chain Store System

The Arlington Stores, Inc., have 243 grocery stores in an eastern city, its suburbs, and in the other communities within a radius of 100 miles. Of these 243 stores 130 are in the city and suburbs.

Owing to the transportation costs to the outlying stores and the higher rate of stock-turn in the city stores, the company finds it possible to sell at slightly lower prices in the city and suburbs. One price is maintained in all the stores of each of these two groups. In order to keep separate the records of the stores selling at different prices, statistics are gathered separately for the city and suburbs and for the outside stores.

The stores carry a line of staple groceries, potatoes and other dry vegetables, bread, and National Biscuit Company products. The sales range from $500 to $1,600 per store per week. Each store is in charge of a manager who may or may not have an assistant, depending upon the store's volume of sales.

All buying is done at the office located at the central warehouse. All goods are shipped to the stores from this warehouse except bread, some of the vegetables, and goods supplied by the National Biscuit Company, which are delivered direct. The Arlington company does not maintain a bakery.

For the purpose of management and store control, the company gathers weekly statistics from each store on the following subjects:

1. Store Merchandise Balance.

   This is a book inventory in dollars arrived at by adding the value of goods received during the week to the previous week's inventory and deducting the sales. A physical count is taken at least once a month to check this book inventory.

2. Sales.

3. Shipment Mark-Up.

   Goods are billed out to the stores from the warehouse at retail and are credited to the warehouse at cost. This item—shipment mark-up—represents the difference between the total value of the goods shipped to the stores at retail and their total value at cost. It is expressed in per cent of the retail value.

4. Store Mark-Up.

This item represents mark-up taken on stocks in the stores in accordance with orders issued from the central office. It is expressed in per cent computed as follows:

(*a*) The store manager takes a physical count of his stock of the goods marked-up.

(*b*) He multiplies the amount of mark-up, in money per item, by the number of items in stock.

(*c*) He divides this product by the sales for the week to get the per cent shown.

5. Store Mark-Down.

This item represents mark-downs taken in the stores in accordance with orders from the central office. It is expressed in per cent and is computed in a manner similar to the store mark-up, item 4 above. This item includes only goods marked down permanently. It does not include goods marked down as leaders for one or more days.

6. Store Wages.

This item is expressed in per cent and shows the ratio of store wages for the week to store sales for the week.

7. Store Supplies.

This item is expressed in per cent and shows the ratio of weekly purchases of miscellaneous store supplies to the store sales for the week. The figure on purchases is arrived at by deducting salvage credits (i. e., for boxes, crates, and other material returned to the warehouse and sold) from the amount expended for brooms, paper, bags, twine, and other small items of supplies.

8. Special Sale Mark-Downs.

This item represents the mark-downs taken on leaders sold at temporarily lower prices in accordance with orders from the central office. It is expressed in per cent and computed as follows:

(*a*) A physical count is taken, when a mark-down takes effect, of the stock of goods to be offered at the lower prices.

(*b*) To this is added the amount of goods of the item marked down which is received by the store while the mark-down is in effect.

(*c*) A physical count is taken at the end of the period during which the mark-down prevails and the sales at the reduced price, computed by deducting this amount on hand at the close from the sum of goods on hand at the opening and goods received during the sale.

(*d*) This number of items sold at the reduced price is multiplied by the amount (in money) of the mark-down per item.

(*e*) This product is divided by sales for the week to get the per cent of special sales mark-down.

These data are available at the central office on the Friday following the close of the week to which they apply. They are summarized for the city stores and for the outside stores and entered on the following form, which has 14 columns, one for each week in the quarter and one for the quarterly total. Entries are made in the respective columns week by week as the figures become available.

	Week Ending	Week Ending	Week Ending	Etc.
STORE MERCHANDISE BALANCE ($) City Outside Total				
SALES ($) City Outside Total				
SHIPMENT MARK-UP (%) City Outside				
STORE MARK-UP (%) City Outside				
STORE MARK-DOWN (%) City Outside				
STORE WAGES (%) City Outside				
STORE SUPPLIES (%) City Outside				
SPECIAL SALES (%) City Outside				

Questions

1. Should the company show this information by stores weekly?
   (*a*) What form might be used?
2. Should any other items of expense be shown?
3. Should the data be shown by week only, or for each week and cumulative to date?
   (*a*) Should there be any comparison with corresponding week or the corresponding period of the preceding year?
4. Should the data either for the city and the outside stores, or for the individual stores, be presented graphically in addition to the tabulation?
   (*a*) If so, how?

PART IV

ORGANIZATION PROBLEMS

PART IV

ORGANIZATION PROBLEMS

THE placing of responsibility through the delegation of authority to gain *control* is the aim of a plan of organization. The growth in the size of retail establishments has brought about a division of labor, and this in turn has produced many problems of the delegation of authority and assumption of responsibility. Without a thorough understanding of these problems it would be difficult for a student of retailing to understand a great majority of the other non-merchandise and the merchandise problems which arise in retail operations. Like the accounting problems, those of organization go to form the backbone of retail store management.

A great mistake has been made by some stores in trying to install a so-called "system" of organization without regard to the qualification of the individuals who must operate it. As the problems in this chapter will point out, there are certain basic principles underlying all retail organization, but the way these principles are applied will determine the success or failure of a plan. In large stores it is much easier to install a standard plan for departmental organization than in the smaller stores. This is probably due to the similarity in departments, caused, no doubt, by intelligent competition in the larger units. But the difficulty of fitting any type of standard plan of organization to the executives of a store, large or small, will become apparent to anyone who may have had an opportunity of comparing the number, personalities, or tastes of the executives of two or more stores. All too many stores have felt that a plan of organization was something to have regardless of results and consequently have found themselves working for the plan instead of having a means of better control by making it work for them.

Organization, from the point of view of this book, is meant to include the physical properties of retailing as well as the

human equation—the materials of production as well as the individuals who produce. On the one hand, there is the organization of personnel and the functions they perform; on the other, the physical equipment with which they deal.

The following classification has been made of the organization problems:

A. Business Organization Problems.—The Problems surround- the establishment of the business.

B. Store Organization Problems.—The development of the general plans for the distribution of functions and duties.

1. Type of Organization.
2. Organization of Administrative Departments and Provision for Contact.

C. Plant Location and Equipment.

1. Location.
2. Equipment.

A. BUSINESS ORGANIZATION

Organization 1

P. B. Crane—Incorporation

February 19, 1921

Bureau of Business Research,
Harvard University,
Cambridge, Massachusetts.

Dear Sirs:

My brother and I have just purchased the business of Weddles Hardware Company. The sales of this company for the year ending December 31, 1920, amounted to about $143,600.00. Knowing that you have had considerable experience with retail store problems, I am writing for your advice as to whether to operate this business as a partnership or as a corporation. Any information that you can give me as to the advantages of one form of organization over the other will be much appreciated.

Yours very truly,

JC:PBC (Signed) P. B. Crane

Questions

1. What are the advantages and disadvantages of a partnership form of organization for a retail store?
   (*a*) Of a corporation form of organization?
2. Answer this letter, stating your ideas briefly.

Organization 2

Roger Lambert—Organization and Its Relation to Management—How Much Business Must a Store Do to Show a Reasonable Profit?

The following letter was received by the Harvard Bureau of Business Research from a prospective small store owner who wished to determine the probability of his success before risking his capital in the proposed venture:

July 15, 1921

Bureau of Business Research,
Harvard University,
Cambridge, Mass.

Gentlemen:

I am considering purchasing a lot for $300, and building a small store on it, which will cost about $200. The lot is located near a knitting mill, cotton mill, and furniture factory in the southwest part of the city, and practically every person in this part of town will pass it going to town. My plan is to open up on a small scale and sell bottle ale and soft drinks to the employees of the factory, and handle fruit, canned goods and sandwiches at the start with a view of developing the business into a small retail grocery store. But before I take the venture I want to get your advice and some information. I can make about $4 a day working in a factory. How large a business would I have to do to make the store pay at the start? I would have about three competitors, one medium-sized grocery store, and two small stores of the type I am thinking of opening.

Kindly send me the Harvard system of accounting for retail grocery stores and advise if it could be modified for use in this type of business. Also send me a system for a wholesale grocery business.

Hoping to hear from you by return mail, I remain

Yours truly,

JP:RL Roger Lambert

Question

What reply should have been made to this letter?

Organization 3

C. P. Knox—Raising Capital for a Shoe Chain

Mr. C. P. Knox is employed as sales manager by a large shoe manufacturing company which sells direct to retailers, but does not operate any retail stores of its own. Mr. Knox entered the employ of this company as a shoe salesman 17 years ago, and has gradually worked up until, four years ago, he was appointed sales manager. His business experience has been entirely with this company. He is contemplating the establishment of a chain of shoe stores which would handle only women's medium-price shoes. He estimates that the fixtures would cost in the neighborhood of $2,000 per store and the annual sales of each store in this chain probably would amount to about $60,000. Mr. Knox has about $5,000 which he has been able to save from his salary as sales manager. He is confident that with his experience he will be able to make a success of the chain store business.

It has been suggested that in financing the business Mr. Knox should secure a bank loan, in addition to his present $5,000 capital, sufficient to enable him to open one store. He would then give his entire attention to the development of this store, and after a year or two, as the success of his venture became assured, he would open branches in the same or neighboring cities.

Another plan for financing business is that Mr. Knox should secure a line of credit from a well-known shoe manufacturer. Furthermore, at least 65% of the merchandise carried would have to be this manufacturer's product, although the shoes themselves would carry the retailer's own brand. If these conditions were complied with, the manufacturer could be depended upon to extend credit of from six months to a year.

A third plan is to have the firm incorporated with $20,000 stock. The company would start with one store and gradually develop it before branching out and adding others to the chain. The stock would be deposited in trust, and the company would be operated as a voting trust for five years under the direction of Mr. Knox. The other officers of the firm, besides Mr. Knox, would be his personal friends who are engaged in the shoe business. Mr. Knox would have the option of buying 30% of the stock in addition to the 25% which he already owned, thus eventually gaining control of the company.

Question

Which plan should Mr. Knox adopt to raise capital for starting a chain of retail shoe stores?

Organization 4

George F. Baker—Owned or Borrowed Capital

George F. Baker, a native-born American, about 35 years of age, in 1916 was employed in a large retail grocery store in a manufacturing city of about 70,000 population. He entered the employ of this store as a delivery boy on August 5, 1901, worked up through various positions in the store, and on October 15, 1913, was made assistant general manager. Consequently he had acquired a thorough knowledge of the operations of this store. He was married and had two children. He had an excellent reputation for industry and honesty among

the people with whom he had come in contact. In May, 1916, Mr. Baker was considering starting business for himself. He was confident that there would be great possibilities open to him if he could operate a grocery store of his own in one of the recently developed and well-to-do sections of the city. The branches of eight grocery chains were already located in the city, but by operating a credit and delivery business in a more newly developed residential section Mr. Baker believed he could meet this competition and build up a desirable clientele.

He had the opportunity of renting for $1,000 a year a new store building, which had just been completed in this district. From his experience in the grocery business Mr. Baker estimated that the sales in a store in this district should amount to about $75,000 a year. He had saved $2,500 which he could invest in this new undertaking.

Question

Should Mr. Baker have started business with his capital of $2,500 and attempted to secure credit from wholesalers, to negotiate a bank loan, or to secure funds from other sources?

Organization 5

Meehan Drug Company—Expansion of Drug Chain

The Meehan Drug Company owns four stores located in towns south of Boston. This company has followed the policy of buying up established drug stores and continuing to operate them under their former names in order to capitalize the good-will already secured. Each of the stores now operated by this company has a large prescription business, a great deal of this trade being received through the recommendations of local physicians.

The largest store, which has an annual sales volume of $80,000, is located in a town the population of which consists mainly of factory workers and people who are employed by a large printing plant and seven other industries in the town. The store has a Rexall agency and is the largest drug store in the town.

The second store, with a sales volume of $75,000 a year, is located in a residential town, many of the residents commuting to Boston. There are four other drug stores in the town, but the one owned by the Meehan Company is the largest. This store also has a Rexall agency.

The third store is located in a strictly residential town, and has a United Cigar agency. This store does an annual business of $55,000 and is next to the smallest drug store in the town, two other stores being considerably larger and doing more business.

The fourth store, with a sales volume of but $45,000 a year, is the smallest of all the stores of the Meehan Company. This store also has a United Cigar agency. The three other drug stores in the town, which is also strictly residential, are larger and carry bigger stocks of novelties than does the Meehan store.

The president of the Meehan Company has been told that the store of Charles E. King is for sale. This store is located in the center of a city with interurban line to Boston. The population of the city is about 47,000, half of which is industrial workers, many of the other residents commuting to Boston. One of the largest industries of this city is shipbuilding, where Government submarines and destroyers are constructed. Some of the inhabitants are employed in shoe factories which are located outside the city or in nearby towns.

Question

What should the executives of the Meehan Drug Company consider in deciding whether or not to buy the Charles E. King store?

Organization 6

The Rockwood Clothing Company—Organization of a Clothing Chain

The Rockwood Clothing Company began business over 30 years ago with a single clothing store. This store developed a reputation for selling men's clothing of high grade, under its own brand. In addition, men's furnishings were carried, but not shoes. As the company became stronger financially, other stores of the same character were acquired in other cities until now the company operates four stores handling the same high-grade merchandise and with the same reputation as that of the parent store.

This company is contemplating purchasing two stores located across the street from each other, in a city of about 100,000 population. This city affords a market that the company has ample reason to believe will prove profitable. A large proportion of the population is well-to-do, and during nine months of the year the city has an additional population of 5,000 students who attend the State University located there.

One of the stores under consideration in this city is the Shackford Store, operated by a man who has been in the clothing business for 35 years. He sells only his own brand of clothing and probably has the most desirable clientele in the city. In addition to clothing he sells high-grade shoes. His sales of clothing for the past year were $160,000, while his shoe sales for the same period amounted almost to $45,000.

The second store under consideration is the Joyce Brothers' Clothing Store, operated by two young men who have been in the clothing business for nine years. During this period they have increased the sales of their store from $40,000 to $175,000 a year. They have the agency, which can be terminated at will, of one of the most widely advertised brands of men's clothing. They have built up a large demand for this brand, particularly among college students, and have devoted their efforts strictly to the handling of clothing and men's furnishings, refusing to carry shoes or other merchandise.

The policy of the Rockwood firm, which is contemplating the purchase of these stores, has been to retain in its employ, as manager, the proprietor of the store that it buys out. In

this manner they have secured in the past experienced store managers who are well known in their locality and who have already built up a clientele for their store. In order to maintain their reputation for handling high-grade merchandise, this firm, has as far as possible, purchased stores with the greatest prestige in the towns which they have entered.

From the financial standpoint, the terms on which each business can be bought are about equally good.

Question

Which of these stores should the Rockwood Company purchase?

B. STORE ORGANIZATION PROBLEMS

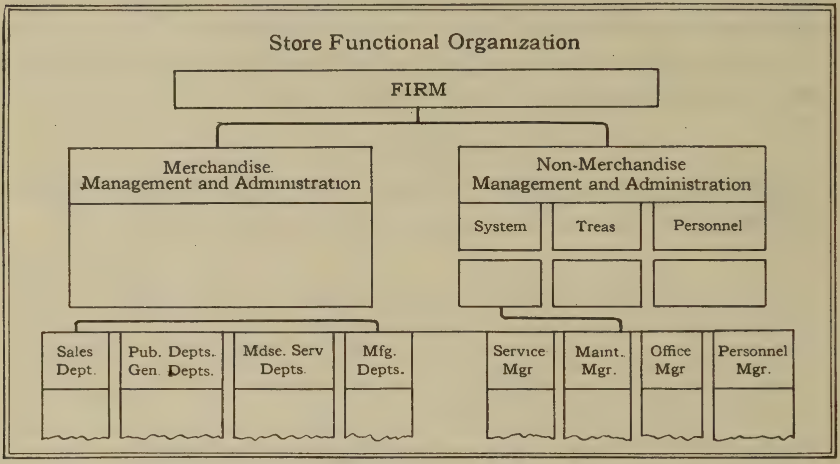
1. TYPE OF ORGANIZATION

Organization 7

Dupont Department Store—Organization Chart

The Dupont Department Store has done an average annual business of $28,832,000 since 1916. This store owes its development largely to the hard work of several executives who have been with the business for more than 25 years. These men have succeeded in building up a successful department store because they possess the ability to work together and to get things done. Now, however, some of these executives are about to retire, and the Board of Directors realizes that when these men are gone it will be almost impossible to replace them. For this reason the executive committee wishes to draw up an organization chart on a functional basis. It is hoped that by thus subdividing and definitely fixing responsibilities and duties it will be possible to maintain a strong organization after the old executives are gone.

The present plan of organization consists of a board of directors, president, vice-president, and general manager, who are in charge of the eight main divisions of the organization shown on the outline below.



FORM No. 28. Dupont Department Store—Fun tional Organization Chart

The executive committee has made a list of the various functions necessary for the proper management of the store, and it is now proposed to locate these functions under their proper headings in the organization chart.

Question

Under what headings should the following items be placed:

Elevator service
Central wrappers
Ventilation systems
Methods director

Personnel service
Main store sales
Heating systems

Newspaper advertising department
Circular advertising department
Mail-order advertising
Advertising cost records

Fifth floor receiving room
Sixth floor receiving room
Annex receiving room
Marking room
Return goods room

Shipping
Office training
Planning department
Sales systems
Fur storage
Store forms

Stenographic
Quota systems
Merchandise signs only

Furniture manufacturing
Bedding manufacturing

Manufacturing
Stockrooms
Furniture delivery

Carpenters
Cash register system
Elevator equipment
Basement sales
Waiting room service
Employment
Sample room inspection

Carpet manufacturing
Drapery manufacturing
Shade manufacturing

Store notices
Lecture room
Annex sales
Bonus systems
Store supplies
Charge accounts
Merchandise managers
Sales departments

Purchase accounts
Fellow workers' restaurant
Shipping drivers
Foreign
Addressograph
Sweepers
Hospital
Tills
Charge accounts cashiers
Garage

Ladies' alteration room
Misses' alteration room
White room

Painters
Time
Personnel service division
Show case cleaners
Packers
General cashiers
C. O. D.
Stable

Telephone equipment
Standardization records

Window decorating department
Store decorating department
Credit
Salary systems
Stock-taking system
Pay office
Electricians

Art workroom
Jewelers' workroom
Picture workroom
Rug workroom

Educational
Mutual aid systems
Locker service
Furniture drivers
Mail order
Inspectors
Traffic

Authorization
Watchmen
Charge accounts billing
Distribution of expense
Mailing
Stock record
Collection
Cash auditing
Main adjustment

Corset manufacturing
Millinery manufacturing
Shoe repairing

Quota bonus department
Sign painters
Parcel collectors
Store adjustment
Porters
Sales cashiers
Washing
Dressing room

Organization 8

Cole & Lee Co. and the Hatfield Brothers Co.—Main Divisions of Store Organization

The Cole & Lee Company Department Store was founded in 1878. This firm is one of the most conservative stores in the city and has an excellent clientele. The business has grown until the annual volume of sales is now close to $30,000,000. The owners of this store have always depended on picking the right men for the right jobs rather than on an elaborate system of control. The personal element is emphasized throughout the organization. The department heads are given a larger measure of independence than is the case in many department stores of similar size, and the merchandise control system is rather loose.

A few years ago the store organization was modified to some extent to meet changed conditions. The organization chart now shows two main divisions, Merchandise Management and Administration and Non-merchandise Management and Administration. Under Merchandise Management and Administration are the following divisions:

1. Sales departments, divided among six merchandise managers.
2. Publicity departments, and general departments, including advertising division, window division, sign painter, and some miscellaneous departments such as elevator service, New York office, mail-order sales, and bureau of individual attention.
3. Merchandise service departments, including receiving division, stock and messenger division, stockrooms, and warehouse.
4. Manufacturing departments, including manufacturing and alteration rooms in the store and warehouse, and the fur storage house.

The other main division, Non-merchandise Management and Administration, is subdivided as follows:

1. Management and administration of system, service, and maintenance.
2. Treasurer's office.
3. Management and administration of personnel.

The first of these divisions is further subdivided under the following heads:

(*a*) Service Manager.
(*b*) Maintenance Manager.
(*c*) Office Manager.

The service manager has the following non-merchandise functions: store service, complaints by customers or employees, accident report, mutual aid systems, waiting room service, store notices, stock-taking system, fire brigade, and payroll; and the following merchandise functions: systems used by salespeople, systems used by superintendents, maintenance and improvement of sales service, cash register system, stock system, and standardization of selling service.

The maintenance manager has the following non-merchandise functions: special purchases, store equipment, store forms, heating system; and the following merchandise functions: maintenance of sales equipment, appearance and cleanliness of sales force, supplies, and forms.

The office manager has the following non-merchandise functions: responsibility for all office workers, production methods, standardization records, equipment, layout, forms, supplies, bonus systems, job analyses, salary plan, promotion plans, office discipline, cooperative supervision of office training school; and the following merchandise functions: supervision of clerical workers in stockrooms, shipping rooms, receiving room, and advertising office.

The treasurer has the management and administration of all financial policies, all statistical policies other than personnel, all store methods of handling money, all public relations, all store accounting methods, and traffic management.

The personnel director has the management and administration of all vocational, employment and educational services, all salary administration, all profit-sharing administration, all payment of quota bonuses, and all special store activities. The work of the personnel director covers non-selling as well as selling personnel.

The two main divisions in this store's organization are linked together as follows:

(*a*) By a planning and research department.
(*b*) By daily meetings of merchandise managers.
(*c*) By weekly staff meetings of directors.
(*d*) By monthly meetings of the heads of all departments.

The Hatfield Brothers entered the dry goods business about 20 years ago. Their merchandise policies proved successful from the start, and the store was obliged to change its location several times in order to secure the necessary room for expansion.

At the present time, the annual volume of sales is a little over $15,000,000. This store handles the same grade of merchandise as the Cole & Lee store and has built up an excellent reputation for service and fair dealing. Although department heads are encouraged to develop their own initiative to as great an extent as possible, there is, nevertheless, a careful control exercised through the divisional merchandise managers and the controller's office. Although the importance of the personal element is not lost sight of in the Hatfield Brothers store, this company has gone farther in developing store systems than has the Cole & Lee store.

The organization of the Hatfield Brothers Company shows four main divisions:

Publicity	Superintendence
Merchandising	Recording and control

In the publicity division the advertising manager and his assistants have complete charge of all newspaper, circular, and direct-by-mail advertising, as well as store and window display, merchandise shopping bureau, and advertising records.

Under the general head of merchandising there are four divisional merchandise managers: one for small wares; one for waists, shoes, millinery, underwear, and infants' wear; one for men's and women's ready-to-wear, sporting goods and toys; and one for furniture, rugs and house furnishings.

The main division, headed Superintendent, is made up as follows:

(*a*) Educational director, in control of new employees, store system, textiles, salesmanship, and error system.

(*b*) Social director, in charge of employees' restaurant, reading and rest room, house organ, absentee follow-up, and emergency nursing.

(*c*) Employment director, in charge of salaries, bonuses, promotions, discharges, references of applicants, and time records.

(*d*) Delivery superintendent, in charge of regular delivery, handling, sorting, special delivery, parcel-post, mail, and express.

(*e*) Service director, in charge of divisional floor managers, salespeople, adjustments, complaints, information, telephone, alterations, aisle men, stock boys, inspectors, elevators, and cleaners.

(*f*) Mechanical superintendent, in charge of engineers, porters, elevators, carpenters, night watchmen, repairers, replacement, laundry, and delivery.

(*g*) Purchasing agent, in charge of supplies, fixtures, contracts, printing, and salvage.

(*h*) Traffic manager, in charge of receiving, marking, stockroom, customs house, and import bureau.

(*i*) Systems director, in charge of store system, blank forms, system bureau, expense analysis, and workroom.

The Recording and Control division is made up as follows:

(*a*) Accounts payable director, in charge of accounts payable for merchandise, accounts payable for expense, merchandise classification, and expense distribution.

(*b*) Statistical director, in charge of sales audit, merchandise bureau, merchandise recording, cost bureau, statistics, planning, and organization.

(*c*) Financial director, in charge of general ledger, payrolls, cashiers, bank accounts, legal bureau, stenographic force, mail distribution, filing, and inventories.

(*d*) Accounts receivable director, in charge of credit section, credit authorization, collections, bookkeepers, bill adjusting, and C. O. D. department.

The subdivisions of the Recording and Control division all work together in the following functions:

(1) Internal audit.
(2) Control of purchasing.
(3) Control of expenses.

Question

What are the advantages and disadvantages of each of these types of store organization?

In each of these stores there has been some friction due to uncertainty as to the exact point where the authority of the buyer or department head ends and that of the personnel department begins. Salespeople are sometimes uncertain as to the matters on which they should look to the buyer for guidance and those which should be referred to the floor manager.

Questions

1. Which of these types of store organization seems best fitted to cope with this problem?
2. Draw an organization chart for each of these stores, placing the functions under the proper heads.

Organization 9

Charles M. Watson & Sons—Functional Organization

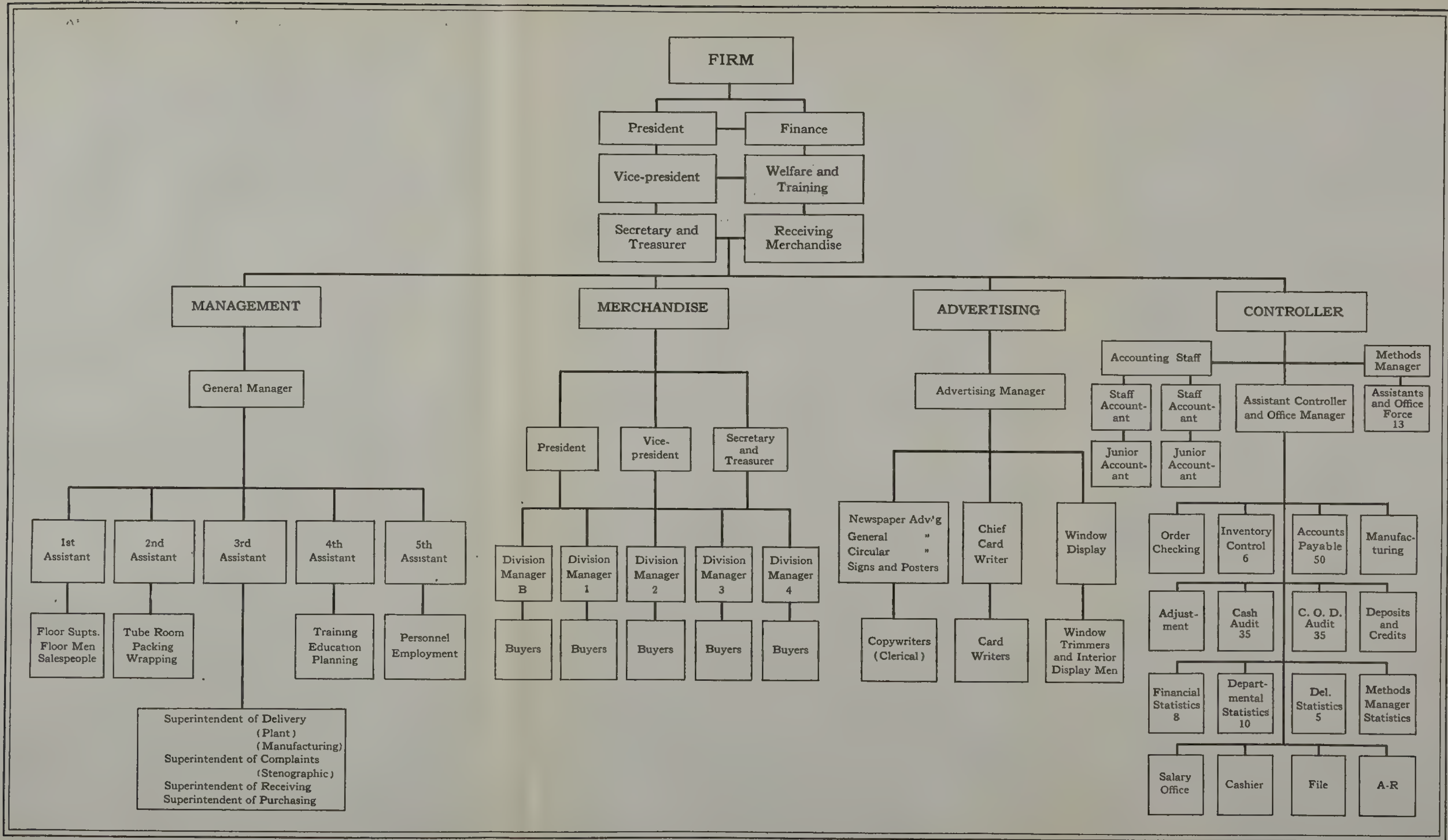
The department store of Charles M. Watson & Sons is organized according to Form 29, shown on Insert V.

The store is a corporation, but practically all the stock is held by the president, vice-president, and secretary-treasurer.

As indicated in the first section of the organization chart, the president, in addition to the duties usually connected with his office, has charge of matters of finance. The vice-president makes a specialty of welfare and training, and the secretary-treasurer devotes considerable attention to merchandising and the receiving of merchandise.

The subdivisions of the first general functional division, management, are clearly set forth in the chart. The duties assigned to each assistant to the general manager form a more or less distinct group. There is an exception to this in the case of the duties given to the third assistant, but the exception to the rule in this case does not operate to the detriment of efficient management because of the fact that the third assistant is peculiarly apt in handling such problems.

The superintendent, under the direction of third assistant, has charge of those functions usually given to a traffic manager, the receiving of merchandise into the store, the marking of merchandise, and the storing of all merchandise until it goes into forward stock. Mark-downs must be taken by members of the marking force in his department. The superintendent of purchasing purchases all supplies and materials other than merchandise.


FIRM
President
Finance
Vice-president
Welfare and Training
Secretary and Treasurer
Receiving Merchandise
MANAGEMENT
MERCHANDISE
ADVERTISING
CONTROLLER
General Manager
1st Assistant
2nd Assistant
3rd Assistant
4th Assistant
5th Assistant
Floor Supts. Floor Men Salespeople
Tube Room Packing Wrapping
Training Education Planning
Personnel Employment
Superintendent of Delivery (Plant) (Manufacturing)
Superintendent of Complaints (Stenographic)
Superintendent of Receiving
Superintendent of Purchasing
President
Vice-president
Secretary and Treasurer
Division Manager B
Division Manager 1
Division Manager 2
Division Manager 3
Division Manager 4
Buyers
Buyers
Buyers
Buyers
Buyers
Advertising Manager
Newspaper Adv'g
General "
Circular "
Signs and Posters
Chief Card Writer
Window Display
Copywriters (Clerical)
Card Writers
Window Trimmers and Interior Display Men
Accounting Staff
Methods Manager
Staff Account-ant
Staff Account-ant
Assistant Controller and Office Manager
Assistants and Office Force 13
Junior Account-ant
Junior Account-ant
Order Checking
Inventory Control 6
Accounts Payable 50
Manufac-turing
Adjust-ment
Cash Audit 35
C. O. D. Audit 35
Deposits and Credits
Financial Statistics 8
Depart-mental Statistics 10
Del. Statistics 5
Methods Manager Statistics
Salary Office
Cashier
File
A-R

In the second functional subdivision, merchandise, are the three members of the firm, the president, vice-president, and secretary-treasurer, holding coordinate positions as merchandise managers. As was indicated previously, however, the secretary-treasurer exercises the most active control. In this section of merchandise control are placed the five division managers. Each division manager is given charge of a group of closely related departments, and the store is so laid out that the boundaries of each manager's jurisdiction do not extend beyond a single floor. Thus there is a division manager in charge of the basement store and one in charge of each of the four selling floors. The buyers for each department are next in authority to their division managers. The floor superintendents, who are under the direction of the first assistant to the general manager, are in charge of the floor men and services on the floor. Their jurisdiction coincides with that of the division manager as regards physical boundaries.

In the advertising office, which comprises the third functional division, the advertising manager is in complete charge. There are no men subordinate to him to take over the three functional subdivisions of his office. The advertising manager himself takes over the duties which would be performed by these functional subordinates did they exist.

In the fourth functional division the controller is in sole charge. Directly subordinate to him and in active charge of the office is the assistant controller and office manager. This man has in his charge the 15 sections into which the office is divided. Formerly these 15 sections were grouped into a number of divisions, and each division head reported to the office manager. This system of pyramiding, which was in accord with the familiar line type of organization, was discarded, and the present system installed because it was decided that more work could be accomplished and more prompt action could be secured if there was direct contact between the superior and the section head. The theory, under the present system, is that the section head knows that if he does not keep abreast of the schedule or carry out orders he will be held to account by the head of the office. No time is lost by passing orders from hand to hand, and none of the vividness or life with which the manager issues the order is lost in transit. It is also believed that this system of direct contact

with responsibility encourages the section head to make suggestions for improvements because he is now sure that such suggestions, as well as his mistakes, will come immediately to the personal attention of the man in charge of the office. The office manager's experience with the new direct contact method has convinced him that it imbues the section head and, through the section head, the workers with more loyalty and more earnestness than could possibly be secured under the old system.

In addition to the officers the controller has attached to his department two important staff agencies. One, the accounting staff, is made up of three trained accountants. Of these, two are kept busy making a running internal audit of the store's general ledger. They have under their direction junior accountants, who make the actual investigations necessary in the study of the various accounts. The staff accountants pass on the reports made by these junior accountants and also O. K. all entries to the general ledger accounts. This man, who has a force of 13 assistants and clerical helpers, is in charge of planning, scheduling, and efficiency work throughout the controller's office. He does, within the bounds of this one office, what the planning department, under the direction of the general manager's office, does for all other parts of the store. The office of the methods manager is "Scot free" from all production. It has no schedule for its work. The statistical reports which it requests are made out by one of the sections subordinate to the office manager, as indicated in the chart. In this section are prepared all the statistical reports not regularly prepared by other agencies in the store.

In actual operation the men at the head of the various divisions shown in the chart are brought together frequently in council meetings, and it is thus that the problem of liaison is solved. For example, every Friday morning the executive council meets to take up important problems. This council includes the three corporation officers, the general manager, the five division managers, the controller, and the advertising manager. At frequent intervals the merchandise council consisting of the five division managers holds its meetings. Every Thursday morning the system and service council assembles to discuss problems of store service and method. This council is made up of the vice-president, the general manager, the second and third

assistants to the general manager, the controller, the superintendent of delivery, the superintendent of receiving, the superintendent of complaints, and the superintendent of purchases.

The Watson store has sales which run in excess of $20,000,000 a year. Of these an unusually large proportion is cash. The store does a charge business, but it discourages the opening of accounts and takes advantage of every opportunity to encourage cash purchases. It hopes eventually to build up a "cash only" requirement for business throughout the store. With this policy, the store's clientele is, of course, largely made up of purchasers of small means. In the aggregate, however, this class has a large purchasing power, and the store heads believe that by catering to the needs and convenience of this class they are building for themselves a business which in volume will probably exceed that which might be developed on a basis of higher quality with higher prices and more exclusive appeal.

Is this organization well adapted to the needs of the Watson store? What are the limitations to its application in other department stores?

Mr. Watson, in reorganizing the controller's office, put into practice some ideas with regard to pyramiding and methods of securing contact which may be uncommon.

Questions

1. Is Mr. Watson's theory sound?
2. Assuming that there would be sufficient work for him, where in the chart should an assistant advertising manager be placed?
3. Does it seem logical to place the planning department under the fourth assistant to the general manager?

Organization 10

The Hough Store—Store Organization—Types

The staff and line type of organization was followed for a number of years by the Hough Store, located in a city of about 41,000 in northern Illinois. This store was divided into eight departments including groceries, dry goods, hardware, clothing, footwear, kitchen utensils, paints and varnishes, and farm implements. The heads of these departments had complete charge of all the functions pertaining to their departments, and were responsible only to the proprietor of the store.

Thus each department head did his own purchasing and kept his own accounts of the amount of money received, the amount paid out for petty cash items, and the amounts owed by customers who had bought on credit. With the exception of six families whom the proprietor had blacklisted, each buyer granted credit to any customer he saw fit. Once each day the proprietor visited the departments to collect cash for deposit in the bank and the bills for merchandise which had been O. K.'d by the department heads. These bills were paid by the proprietor's personal check.

Goods for delivery were placed in the back room of the store to be called for and delivered by the store's small truck and heavy horse-drawn wagon. Each department had its reserve stock in the basement, with the exception of the farm implement section, which was not in the store proper, but occupied a shed and old barn in the rear. For fire insurance reasons, turpentine, varnish removers, and other explosives of a like nature were stored in the shed, which stood at some distance from the store.

Each department head marked his own merchandise, and had complete charge of employing or discharging the workers in his division of the store. On several occasions, employees discharged for incompetency in one department were later hired by another buyer in this store. Such happenings led to constant friction between departments and jealousy and lack of cooperation between buyers.

All window trimmings, displays, and advertising were arranged for by each department head after he had secured permission from the proprietor of the store. Contributions to charitable

organizations were often made out of the store funds by the buyers personally, since it was the belief of the proprietor that each department head should build up a personal following among the store's customers. Inventories were taken by the buyers once each year at the direction of the owner of the store.

During the illness of the head of the paint and varnish department, the proprietor took charge of this section of his store. He was surprised to find the books of this department kept in such a slipshod manner that he was unable to make out the amounts owed by certain customers and the amount of goods on order. He thereupon inspected the books kept in the other departments of his store, and although he found that most of them were in better shape than those of the paint and varnish division, he decided to install a centralized accounting system.

The placing of all accounting details in the hands of an experienced bookkeeper relieved the buyers of some of the petty details which had taken up much of their time. Most of the department heads were quick to see the advantages of the new system, but the buyer of paints and varnishes took the change as a slur upon his personal honesty and immediately resigned. The centralized control of all accounts, however, prevented much duplication of effort, stopped many of the leaks that had gone unnoticed under the old system, and simplified the making out of Government returns.

At the time that the centralized accounting system was installed, the Hough Store had grown from its small beginning as a country general store, 22 years before, until it had a sales volume of approximately \$970,000. During the next five years, because of the development of the farm implement business, the volume of sales had gradually increased to \$1,237,421. In the three years following, however, a number of stores in this locality changed hands, and competition became very keen. A new grocery chain took away a large part of the profitable business in the grocery line, and a shoe manufacturer's retail branch cut down the number of pairs of medium-grade shoes sold at the Hough Store. At the end of this 3-year period, the sales of the Hough Store had fallen to \$1,091,322. The proprietor decided that some blame for his lack of prosperity must be put upon his form of organization, and that if he were to be successful in meeting the increased competition it would

be necessary to reorganize his business in order to do away with all duplication of effort.

A real estate dealer who had a substantial business in both farm and city property offered to furnish a new building for the use of the Hough Store if the proprietor would give him an interest in the business and agree to incorporate. This proposition was finally accepted, and the firm became the Hough Co., Inc.

It was agreed that the real estate dealer should act as treasurer of the corporation and that the old proprietor should handle all credits and correspondence. The bookkeeper was given two assistants, which relieved him of much of the clerical work in keeping the accounts, and left him free to act as office manager. One of the old buyers, who had proved reliable and painstaking, was made store superintendent and given complete charge of receiving and marking all merchandise that entered the store. He was also given authority to purchase all cleaning supplies. A woman, who had had some experience as assistant editor on the local paper, was given the position of advertising and personnel manager. The delivery superintendent kept his old position and in addition was put in charge of the new mail-order department. The latter division was organized for the purpose of sending machine repairs, work gloves, paints, and hardware supplies to the farmers who were too far away to be reached by daily delivery and who could not wait for the weekly trip of the grocery truck to take them such supplies. In addition to his duties as credit manager, the old proprietor acted as merchandise manager. One of his new duties was to establish limits beyond which his buyers were not allowed to purchase goods.

In the course of the reorganization, one of the buyers became dissatisfied and resigned. Several of the less competent salespeople were discharged, with the result that in spite of the new positions created, the actual number of employees required under normal conditions was four less than had previously been the case. During the slack season of the summer months, 55 people were on the Hough Company payroll, but at Christmas time and during March and April when the farmers were buying new implements, it was necessary to increase the force to about 76 in order to take care of the increased business.

In developing the organization along functional lines, however, it became increasingly difficult to fix responsibility. For example, about six months after the reorganization had been completed, customers began to complain of poor delivery service. When the delivery superintendent was called to account for such a state of affairs, he said that he knew the service was poor, but that he was doing the best he could with the employees given him by the personnel manager. The personnel manager maintained that she had hired only experienced men for delivery work, after carefully investigating their past records, and that the delay was due to poor delivery equipment.

On other occasions customers complained that the advertising was not truthful. For example, a certain line of suits advertised as all-wool turned out to have been manufactured out of cloth which contained a substantial amount of cotton. When the advertising manager was asked to explain why she had made such a mistake she said that the fault lay with the buyers who had given her the information. She said that it was certainly up to the buyer to know what sort of merchandise he carried, and that she could not be expected to know more about the goods than the man who had bought them. The buyer stated that he had written the copy before the suits had arrived and that the copy had been released as soon as the merchandise had arrived in the receiving room. He said that he had purchased the goods as all-wool, and that if they had turned out to be cotton, the store superintendent, who had charge of receiving and marking, should have notified him of that fact. The store superintendent said that there was no specification on the invoice to lead him to believe that the suits were intended to be all-wool, or anything other than what they were. He said the buyer had asked him if the suits had come in and he had told him that they had. He maintained that it was not his job to see that the goods were advertised properly, but only to receive and mark all merchandise that entered the store.

Question

How should the proprietor of the Hough Store fix responsibility in his new functional organization?

Organization 11

"The Ritz"—General Store Organization

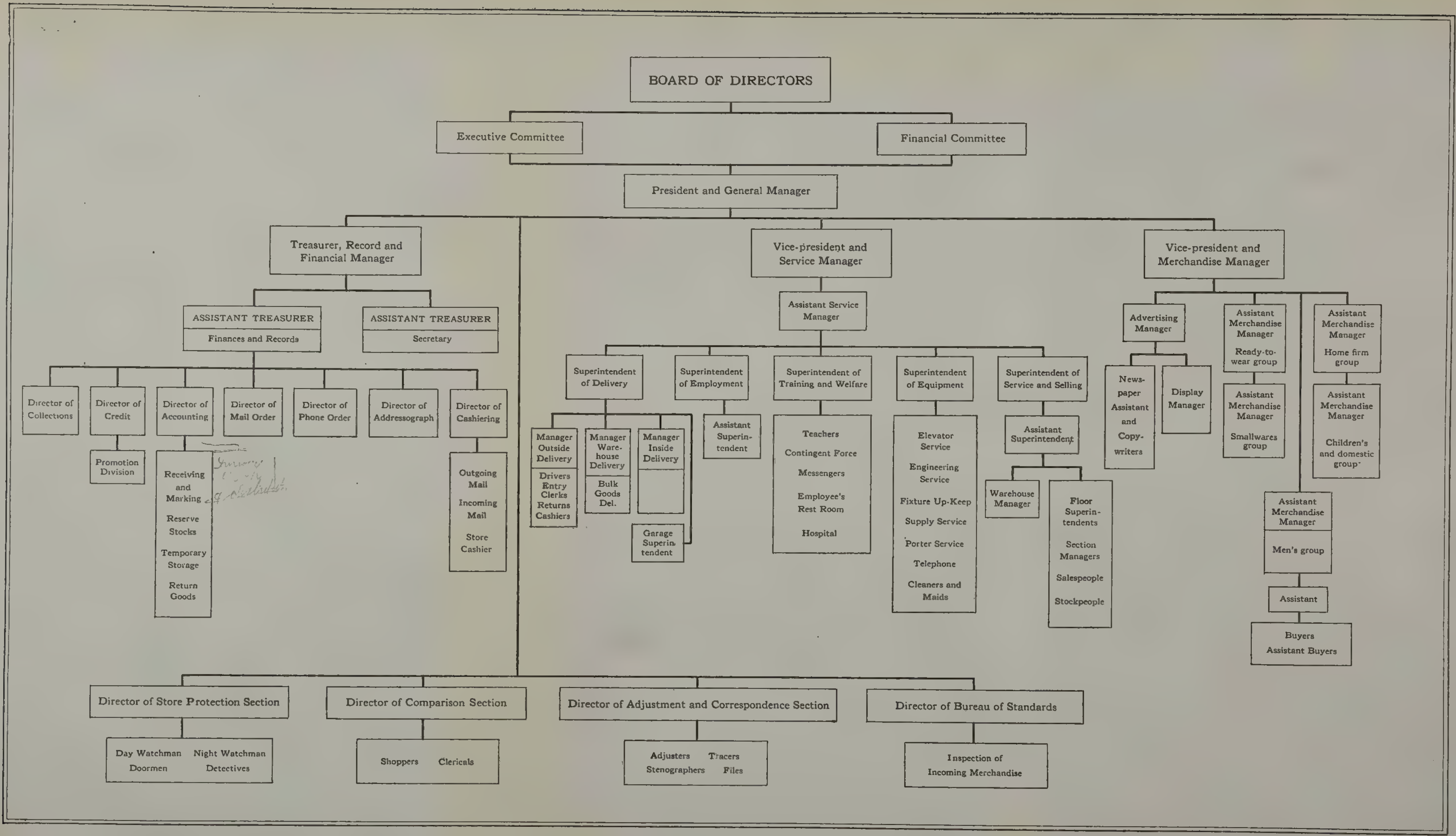
In the Ritz, the best department store in the city in which it is located, the work of management is divided into three main functions: financial and records, service, and merchandise. This division is made clear by Form 30, Insert VI.

The executive committee and the financial committee are committees of the board of directors and normally report to the board. In case they have information which should come to the attention of the president immediately, they report to him. Also, the president may request them to compile information or present advice without the vote of the board.

The president and general manager, as indicated by his title, is actively in charge of the business. To him report three major executives, the treasurer and manager of finance and records, the vice-president and service manager, and the vice-president and merchandise manager. Also, there are four staff agencies reporting directly to the president, as indicated by the form.

In placing the comparison section in this position of a staff agency, the store was governed by the fact that the comparison office must perform a dual function. In the first place, it must shop other stores at the request of the merchandise manager or at the request of the buyers through the merchandise manager in order to be of assistance in buying and to keep the buyers informed in regard to what stocks other stores are featuring, what methods of display they are using, and what services they are using to get the reputation achieved. This is known as the service function. In the second place, the comparison office must shop other stores on its own initiative, or at the request of the management to get information regarding prices and quality which may be used in checking the efficiency of the Ritz merchandise managers and buyers. This function the store knows as the management function. In actual practice the comparison office in fulfilling its service function reports directly to the merchandise manager.

The Bureau of Standards inspects all incoming merchandise in order to ascertain whether or not that merchandise is of the quality consistent with the store's reputation. This bureau is not concerned with whether or not the merchandise is up to


BOARD OF DIRECTORS
Executive Committee
Financial Committee
President and General Manager
Treasurer, Record and Financial Manager
ASSISTANT TREASURER
Finances and Records
ASSISTANT TREASURER
Secretary
Director of Collections
Director of Credit
Promotion Division
Director of Accounting
Receiving and Marking
Reserve Stocks
Temporary Storage
Return Goods
Director of Mail Order
Director of Phone Order
Director of Addressograph
Director of Cashiering
Outgoing Mail
Incoming Mail
Store Cashier
Vice-president and Service Manager
Assistant Service Manager
Superintendent of Delivery
Manager Outside Delivery
Drivers Entry Clerks Returns Cashiers
Manager Ware-house Delivery
Bulk Goods Del.
Manager Inside Delivery
Garage Superin. tendent
Superintendent of Employment
Assistant Superin-tendent
Superintendent of Training and Welfare
Teachers
Contingent Force
Messengers
Employee's Rest Room
Hospital
Superintendent of Equipment
Elevator Service
Engineering Service
Fixture Up-Keep
Supply Service
Porter Service
Telephone
Cleaners and Maids
Superintendent of Service and Selling
Assistant Superintendent
Warehouse Manager
Floor Superin-tendents
Section Managers
Salespeople
Stockpeople
Vice-president and Merchandise Manager
Advertising Manager
News-paper Assistant and Copy-writers
Display Manager
Assistant Merchandise Manager
Ready-to-wear group
Assistant Merchandise Manager
Smallwares group
Assistant Merchandise Manager
Home firm group
Assistant Merchandise Manager
Children's and domestic group
Assistant Merchandise Manager
Men's group
Assistant
Buyers
Assistant Buyers
Director of Store Protection Section
Day Watchman
Night Watchman
Doormen
Detectives
Director of Comparison Section
Shoppers
Clericals
Director of Adjustment and Correspondence Section
Adjusters
Tracers
Stenographers
Files
Director of Bureau of Standards
Inspection of Incoming Merchandise

specifications; it merely passes upon the suitability of the merchandise as representative of the Ritz.

All manufacturing and alteration departments are placed under the supervision of the buyers for the selling departments by which the manufactured articles are stored, or for which the alterations are made. The chart shows the remaining features of the store's organization in the merchandise division. Each assistant merchandise manager has charge of a group of related departments. He has under him an assistant and to this assistant or to the merchandise manager through this assistant reports are made by the heads of the various departments in the group.

The manager of inside delivery has charge of the room where costs are kept, of the express and parcel-post room, of the transfer desk, of the wrong-address desk, of the warehouse and special delivery desk, and of the cashiers, packers, and package collectors. The warehouse and special delivery manager has charge of the paper work in connection with deliveries made direct to the customers from the warehouse, or deliveries made from the store by special messenger.

Questions

1. What are the advantages and disadvantages of placing the advertising manager under the merchandise manager instead of on a par with him, as is done in the organization of the Ritz?

2. Why are the comparison section and bureau of standards not placed under the merchandise manager?
   (*a*) Where should they be placed?

3. Should the promotion division be included in the credit department?
   (*a*) Is its inclusion consistent with sound credit policy?

4. Why does not the Ritz include store protection, mail order, and telephone order under the service manager?
   (*a*) Where should these functions be included?

5. Is it expedient for the Ritz to make the adjustment and correspondence section directly subordinate to the president?

Organization 12

Wells & Dwyer—Organization

Jonathan P. Wells and Conrad B. Dwyer founded the Wells & Dwyer store in 1868. It was one of the first department stores of the country.

In 1889, at a time when the annual sales of the store were slightly over $4,000,000, Lucien B. Wells came into control of the business. He was at the head of the organization up to 1910. During his regime old-fashioned methods of management prevailed. Mr. Wells, while arbitrary and self-willed, was at the same time endowed with an abundance of physical energy and a rare memory for details. He was able personally to attend to all the work of the store that normally is handled by the merchandise manager, the personnel and service director, the superintendent of the building, and the advertising manager combined.

Mr. Wells' methods of hiring his help were purely temperamental. If he liked the appearance of an applicant for a position, he would hire the applicant then and there, frequently with no idea of what the person could do and disregarding the personnel requirements of his departments. Promotions and discharges were similarly treated.

Mr. Wells did not enjoy all the benefits to which his ability as a business man entitled him, because these abilities were counteracted by serious faults. One of the worst of these faults was his tactlessness, which because of his self-sufficient, arbitrary nature, held sway over him unchecked. For example, he would frequently cross-question a salesperson on the condition of the stock, the styles, or the sizes carried and browbeat the individual into giving information about conditions which the head of the department should not permit to exist. Then on the strength of this information he would give the buyer of the department an abusive "calling down." In so doing, Mr. Wells would not hesitate to tell from whom he had obtained the information. A buyer thus rebuked would, in many cases, proceed to make life miserable for the salesperson.

From 1889 to 1910 the Wells & Dwyer store went downhill in many respects though the volume of business increased steadily up to 1902. From 1902 to 1910 the annual sales remained

constant, in the vicinity of $9,000,000. Whereas the store in its early days had built up an excellent reputation, especially for piece goods, at the end of Mr. L. B. Wells' period of managership, it had lost the trade of all the best clientele in the city. Mr. Wells ran his store on the theory that few people are willing to pay a dollar for merchandise that is marked a dollar; therefore, he pushed merchandise marked 92 cents and advertised as $1 value. He featured rejected goods, seconds, irregular sizes, and bargain sales of all kinds. His buyers were instructed never to let slip a job lot that could be put on the counters at low prices.

A small portion of the better class of trade that at one time bought regularly from Wells & Dwyer continued to come into the store occasionally. Most of the old salesmen stayed with the store, but by 1910 their number had been depleted by old age and death. These old salesmen had inherited a tradition of courtesy, which still continued, even at the end of Mr. Wells' managership, to attract some of the former clientele.

Lucien B. Wells died suddenly in 1910. He was succeeded by Daniel Jeffreys, the leading buyer in the store, who had acquired a 40% interest in the firm. One of the first things that Mr. Jeffreys did upon assuming control was to incorporate the business. He urged the buyers to take as much stock in the new corporation as they could afford. This policy of urging buyers to become stockholders has been continued ever since, until now more than half the stock is held by the buyers and executives of equal rank in the non-selling departments.

Under Mr. Jeffreys the one-man management of his predecessor continued. At first, he personally looked over all bills every morning and inspected all incoming merchandise other than standard lines and reordered lots. He wrote all the advertisements himself, and in short, like Mr. L. B. Wells, kept to himself the numerous functions that are usually shared by the various executives above the rank of buyer. Mr. Jeffreys, however, had this advantage over Mr. Wells: he had the assistance of an old business associate, Mr. George K. Lord, with whom he could discuss policies and in whom he could confide implicitly.

Mr. Lord disagreed with Mr. Jeffreys in continuing the one-man rule. He constantly urged Mr. Jeffreys to put more "system" into the management. Finally in 1916 the president

agreed to create two merchandise managerships, these officers to take over 30 of the 62 departments. Since 1916, therefore, Mr. Jeffreys has had only 32 departments to supervise. The work of the advertising office has been delegated to Mr. Lord; and certain of the other functions that were formerly performed by Mr. Wells, and by Mr. Jeffreys when he first took charge, have been delegated to others. A superintendent of the building has been appointed to take charge of personnel management and operations; that is, everything outside of merchandise, finance, and general policy. No other important executive office has been created. There is still no controller for the store, but a head bookkeeper, who actually does much of the work of a controller. Part of this work is performed by the treasurer. These changes have served to lessen the work of the president, in spite of the fact that Mr. Jeffreys has been reluctant to give up the supervision of any of this work.

Even now Mr. Jeffreys handles an amount of detail that would appall the average department store executive. Every single complaint is brought to his attention daily, and he personally dictates all letters relative to these complaints. He reads all advertising copy that is turned out by Mr. Lord. The head of the storage warehouse reports to him once a day. Nobody else in the store knows what happens in these conferences; even Mr. Lord is ignorant of the storage warehouse routine. Mr. Jeffreys meets each buyer each day, including those who come under the jurisdiction of the two merchandise managers. For his own 32 departments he not only continues to check all bills and examine all but standard merchandise, but even to tell the buyers how to price the goods. He also assists the two merchandise managers in running their departments. Every situation the handling of which is not provided for by the routine of the store comes to his attention for settlement.

In view of the fact that there is no advance buying plan or stock plan and no mechanical means of merchandise control, Mr. Jeffreys makes frequent visits to the 32 departments under him. Together with the two merchandise managers he estimates the "open to buy" for all departments every month. This estimate is based on last year's sales, the condition of the stock, and what he and the others think about market possi-

bilities. The buyers are not subject to buying limits, and they are not checked on mark-downs and mark-ups. Indeed, there is no definite check on the character of the merchandise carried except by means of want-slips or call-slips, which are made out by salespersons whenever a customer asks for something that is not carried in stock. Though the collection of want-slips is supervised by floor superintendents under the jurisdiction of the superintendent of the building, the buyers to a certain extent lessen the efficacy of this means of control by not bringing to bear their influence on their sales force. Regarding want-slips as an implied criticism of their merchandising ability, the department heads sometimes even go so far as to discourage the efficient handling of want-slips.

Once during a discussion with Mr. Lord of the question of the control of buyers, Mr. Jeffreys admitted that if the buyer of men's suits, who is sixth on the list of stockholders of the company and one of the best buyers in the store, were to rebel openly against the collection of want-slips in his department and refuse to permit floor superintendents to approach his salespeople, he would probably not discharge the buyer. Mr. Jeffreys however insisted that if any other buyer rebelled openly, the corporation would not renew its contract with him.

The only statistics kept in the Wells & Dwyer store are records of sales and expenses, prepared under the direction of the head bookkeeper. Mr. Lord once said that though he personally believed in statistics, he did not urge their adoption for Wells & Dwyer: "We would not use them if we had them. We keep our figures in our head."

Mr. Lord still continues to urge the president to systematize the store. Mr. Jeffreys has studied many organization charts from other department stores without being favorably impressed. He feels that the elaborate organizations typical of modern, large retail establishments mean a control of people rather than things; that it involves setting up a lot of good titles but poor executives. He asks:

Why should I pay big salaries to men who may turn out badly when I can do all the work myself? If I should fall down on a job, or if the work should in any wise become too much for me, then would be the time to hire an executive. But why do it now when I am able to attend to it perfectly well? Think how much it would cost us in

salaries alone if we installed a system similar to that carried by other department stores of our size.

Mr. Jeffreys has frequently been asked what would happen to the store in case he were to become ill suddenly, or meet with an accident, or decide to retire from business. His invariable answer has been:

Nothing. Mr. Wells died suddenly. We got along better after he died than before, and he was even more of a czar than I.

Before I went to work for Wells & Dwyer I was manager of a store in upper New York state that did a business of about $2,000,000. I did practically all the work of the store myself, far more than I have ever done here. The owner of the business lived in Chicago and did not treat me fairly. At any rate, we had a disagreement and I left on two weeks' notice, expecting that a condition of utter chaos would set in upon my leaving. Nothing of the sort happened. The year after I left the store did a bigger business than ever.

Therefore, I do not think that you can criticize one-man management on the ground of what may happen in case the head of the store is suddenly incapacitated. If I were to die tomorrow, somebody else would come along capable of filling my shoes, and very likely of doing much better.

Mr. Jeffreys came to the managership of the Wells & Dwyer store convinced that its merchandising policy was bad. He disapproved of comparative price advertising, job lots, broken lines, and endless bargain sales. He believed that in the long run the store's advantage lay in the direction of standard merchandise at fixed prices. He rejected the theory that the average customer is unwilling to pay a dollar for merchandise that actually contains dollar value. He was firmly convinced also that most customers were not ordinarily interested in job lots of merchandise, because of the obstacles to reordering. Therefore, he decided to build up regular lines, standard in quality and price, under the name of Wells & Dwyer.

These ideas on merchandising Mr. Jeffreys was not able to put into effect all at once. Most of his buyers were still dominated by the ideas of Mr. L. B. Wells. It was hard for men who had cherished their ability to pick up cheap job lots and undersell all competitors to get the idea that their customers wanted and were willing to pay for service, value, and constant standards. Besides, it was difficult for Mr. Lord to write institutional and quality advertising right after 20 years of ex-

aggerated copy full of comparative prices, pushing all sorts of special sales. Moreover, by 1910 the high-class retail district had shifted somewhat so that Wells & Dwyer, which had once possessed as good a location as there was in the city, was now on the outskirts of the better retail store district.

Though Mr. Jeffreys has eliminated comparative prices completely and job lot buying almost entirely, he has not been successful in substantially improving the store. There are still a few of the well-to-do people who visit the remaining old clerks, especially for piece goods. Over 95% of the store's trade, however, comes from a class of customers who enjoy only a moderate degree of prosperity. Other stores catering to this class of trade in the city use comparative prices in advertising and adhere to some other policies which Mr. Jeffreys considers shabby. These other stores of the same class, furthermore, do not feature splendid window displays, but in this respect the Wells & Dwyer store is the equal of any in the city.

One example of the way in which Wells & Dwyer differs from many stores of its class is the uniform prescribed for employees. The rule has always been that salesgirls and other women employees below the rank of assistant buyer, coming in direct contact with customers must wear black skirts and black or white waists. Mr. Jeffreys insists on the propriety and practicability of this uniform on the ground that it has been in force since the founding of the store. The public, he believes, has become accustomed to the uniforms of the salesgirls and regards them as a symbol of the store's old-fashioned respectability. Furthermore, the only other store in the city enforcing an equally rigid ruling as to the wearing apparel of employees is a small specialty shop; therefore, these uniforms distinguish Wells & Dwyer from competitors. The uniform also prevents overdressing. Mr. Jeffreys believes that many of the salesgirls in the stores that do not supervise the dress of employees are usually overdressed so that they create a bad impression on shoppers. At the same time Mr. Jeffreys realizes that girls frequently have left the employ of the store because of the uniform they are forced to wear. It is also likely that girls have refused opportunities to work in the Wells & Dwyer store when there was a chance to get work in another store where they would not be subject to dictation regarding their clothes. The

situation is made worse by the fact that some of the buyers and their assistants dress in brighter colors and more extreme styles than they would normally wear, in order to distinguish themselves from the regular sales force. These costumes also serve to increase the resentment of the uniformed salesgirls. Mr. Jeffreys for some time, therefore, has been doubtful about the advisability of the uniform rule.

Another example of the personnel problems constantly coming to Mr. Jeffreys for settlement is a protest that was received in the summer of 1921 against blue woolen uniforms worn by elevator girls. This protest was made by three women, one with a charge account at the store, who demanded an interview with Mr. Jeffreys. They accused him of inhuman treatment of his employees and said that to require the wearing of woolen uniforms by elevator girls on hot days was a piece of downright cruelty.

Mr. Jeffreys explained that the girls had never objected, that the uniforms were not even as thick as the woolen suit he was wearing, and that it would be entirely impracticable to furnish special cotton uniforms for the few hot days in the summer when it was too hot to wear the woolen garments with comfort. The three women replied that they would take the matter up in court. They left without getting any satisfaction, but were not heard from again. The effect of his handling of the complaint Mr. Jeffreys has not been able to estimate.

In his stand on the woolen uniforms of the elevator girls, the president was influenced by a similar case which had occurred the year before. The committee of a humanitarian organization complained that the Wells & Dwyer store did not supply enough electric fans for the comfort of the salespeople and threatened to fight the case in court if extra fans were not forthcoming. Though convinced that this committee could not win its case, the management installed the extra fans. Mr. Jeffreys took special pains to watch these fans daily and found that during the whole summer they were in use only eight days.

Another personnel difficulty of the sort that comes up to Mr. Jeffreys is the question of dishonesty. For example, several times in the last few years salesmen in the furniture and rug departments have been caught by house detectives urging people who come to the store for the purpose of furnishing their

houses, to buy their complete furnishings at a certain "fly-by-night" store that is in the habit of securing business by means of fees paid to outside agents such as department store salesmen.

Furniture and rug salesmen at Wells & Dwyer are paid on a straight 4% commission basis for all sales. This is sufficient to enable the best salesmen to earn \$30 to \$35 a week. Mr. Jeffreys has talked to all the salesmen and tried to inspire them with loyalty for the firm and interest in the business. He has not yet found any other way of preventing collusion between this outside furniture house and his salesmen.

In the field of merchandising Mr. Jeffreys likewise deals with a large variety of cases. One of the questions that Mr. Jeffreys has had to settle again and again has presented itself whenever he felt that the time was ripe in a part of the store to change from the Wells policy of job lots and special sales to the new policy of standard lines. The last important case, that of the hosiery department, came up during the winter of 1920. At that time the shelves of this department were piled high with seconds, irregulars and rejects. The buyer could not agree with the president and made the change only under protest. He had been trying, ever since comparative prices in advertisements had been made taboo, shortly after the beginning of Mr. Jeffreys' managership, to get around this ruling in various ways. He could not be persuaded that the "Special Sale" method of merchandising makes for greater advertising costs and sharper peaks and depressions in sales. In the face of this opposition Mr. Jeffreys set up specifications as to quality and styles, so as to build up a regular Wells & Dwyer line of stockings that customers could reorder at the same price and be assured of standard values. Mr. Lord wrote advertising copy designed to stress service and quality, though the hosiery buyer had for years been educating his customers to regard Wells & Dwyer as a place where they could get a pair of silk stockings for 62 cents to 73 cents.

Another typical subsidiary question related to the display of merchandise on counters. In 1910 most of Mr. Jeffreys' buyers believed in studied carelessness in displays rather than in neat arrangement of merchandise. Since then he has been able to persuade the majority of them that their customers prefer a display that is neat and distinct. A few of the buyers,

however, still stick to the old method. In the ladies' waist department, for instance, waists are still rumpled together on a large table instead of being neatly displayed in boxes attractively arranged. The ribbon buyer follows the same policy. Rather than arranging rolls of ribbon according to artistic color schemes, he has the ribbons unwound from their rolls and deliberately snarled up, the theory being that otherwise the customers will not believe that real values are offered. Mr. Jeffreys is constantly trying to make the waist buyer and the ribbon buyer look at the matter from his point of view. Nevertheless, until they can be persuaded to adopt his views, he lets them go ahead as they please, because he does not believe in dictating to a buyer as long as the buyer keeps his stock in good condition and continues to show a profit.

At the same time Mr. Jeffreys does not hesitate to lay down the law in case a buyer's method violates the integrity of the store, even in a very small way, as is illustrated by the following note written by him to the head of the furniture department.

It is characteristic of Mr. Jeffreys' method of managing that, while tireless in the supervision of as many of the details of merchandising as can be mastered by him, he is constantly on the watch for cases where subordinates are doing things, however trivial, that he considers improper.

June 14, 1921

Mr. Cronin:

When we sell furniture that is made of some wood other than mahogany but is stained to look like mahogany, I understand our custom is to say "This is a mahogany bed." If the customer asks, "Is it genuine or solid mahogany?" we say, "No, it is mahogany finish."

Now if this is our plan, is it not deceitful if the bed is made of birch and stained mahogany? Should we not label and sell it as "mahogany finish," using "finish" in every instance indicating that it is something else other than mahogany, instead of trying to convey the impression that it is mahogany and only owning up to the fact that it is not when the customer pins us down?

Daniel Jeffreys

Featuring honest quality rather than special price has led to emphasizing service far more than Mr. Jeffreys conceived when first he embarked on his policy. Service is sometimes interpreted by department stores as giving the customer every-

thing that he wants. Mr. Jeffreys does not believe in going to this limit, but he feels that dissatisfied customers, regardless of the rights of the case, are to be placated unless their demands are unreasonable or fraudulent. It is his policy in deciding upon the numerous complaints, each one of which is referred to him daily by the adjustment office, which gets them from the floor superintendents, to grant a customer's request if the customer honestly believes himself to be in the right.

Whenever Mr. Jeffreys is criticized on the score of his organization and policies, he points to the growth of the store under his presidency as measured in annual sales. Since the day that he took charge every annual report has shown a growth over the previous year. The store has not fallen behind even during periods of business depression. This growth, furthermore, has been sufficiently large so that the critic of this management cannot argue that this growth of the store was the result of the natural expansion of the retail trade of the city. In 1920 the annual sales were $14,862,479.

Mr. Jeffreys does not tacitly assume that his administration has been an unqualified success, that his policies are above criticism, or that his organization is the best possible. The changes he has made from time to time prove this. He realizes that numerous problems are not yet satisfactorily solved. For instance, Mr. Jeffreys complains that too many of his buyers have a tendency to take last year's accomplishments and not this year's possibilities as their standard. He feels that the chief of the store must counteract this tendency. He has been fighting it for years and intends to keep on, constantly hoping that either by means of past experience or some new idea he will be able to make his buyers take a broader point of view.

Linked together with the campaign to stimulate looking forward rather than back is the problem resulting from the personal aggrandizement of some buyers. The department heads at Wells & Dwyer cling tenaciously to all privileges, even those that have been granted to them to cover the purely ephemeral needs of the business. For instance, 1919 was an unprecedented year for women's ties. The buyer in this department succeeded in getting an additional counter to display his neckwear. The next year manufacturers of shirt waists included ties as part of the waist, and as a result the business in

women's neckwear fell off to a point where the tie counter was not necessary. The buyer, however, did not volunteer to return the space. Consequently, nothing was done until a year after the demand for ties had fallen off, when Mr. Jeffreys noticed the excess space in the department. Accordingly, the counter was returned to the department from which it was originally taken, though the buyer of women's ties complained bitterly of being discriminated against by the management. For months afterward every time he was criticized on any subject whatsoever, he replied that he could run his business so as to be above reproach if the management would not rob him of space that he needed.

According to Mr. Jeffreys, the greatest fault of Wells & Dwyer as a retailing institution is the failure of the chief executives in bringing to bear the knowledge, experience, and abilities of all employees toward the solution of problems the moment they arise. Though he feels that this failure is common among other department stores, he does not excuse himself on this ground. He has been disturbed again and again upon hearing from a salesperson, for example, when the sales in the men's shoe department were far lower than they should have been, that the salesperson six months ago was aware of the fact that two or three shoe stores were highly successful in selling a line not carried by Wells & Dwyer. It is Mr. Jeffreys' complaint that months after the damage has been done he hears of stocks that are too large, or too small, or not suited to popular demand. The same applies to smaller details, like sizes, grades, colors, and styles. Apparently the salespeople, and in some cases junior executives, are afraid to make a suggestion which may carry with it an implied criticism of a superior, in spite of the fact that Mr. Jeffreys has been careful, in all cases where suggestions have been forthcoming, to preserve the identity of the cooperator wherever possible, and wherever it has been necessary to reveal the source of his information, to guarantee absolute protection.

Question

What changes in organization and policies should be recommended to Mr. Jeffreys?

Organization 13

The Nixon Company—Organization of a Chain

The Nixon Company operates a chain of 207 grocery stores in the West. The only employee in each store is the manager, who arranges his window displays and keeps his merchandise in good order in addition to making sales. These stores receive all their groceries from one central warehouse.

In order to deliver merchandise to all its stores with the most economical use of its delivery equipment, the Nixon Company has two removable bodies for each truck. Promptly at 7 o'clock every morning the loaded trucks start out from the central warehouse. On their return the empty bodies are pushed off the chassis onto the loading platform to be filled again by the shipping force and the truck is pulled out and backed into the next alleyway where it receives a loaded body ready for delivery. Deliveries are made to each store twice a week. Although it costs 1½% more to deliver merchandise to the outlying stores, which are sometimes as far as 57 miles away, the rent in these suburban districts is about 1½% less than it is in Chicago, so that the expense of operating each store is approximately the same.

No potatoes, vegetables, fruit, or other perishable products are carried by any of the Nixon stores. The only exception to this rule is that during a few months each year oranges and lemons are kept in stock.

In canned fruits, vegetables, and spices this company is rapidly establishing its own brands. At present its private brands constitute 14% of its total sales, but the proportion of the sales of this class of merchandise is increasing.

The equipment and layout of each store is rigidly standardized. Not only are all the shelves, counters, and racks made up in standard sections, but each store manager is furnished with a blueprint which shows just where each piece of equipment must be placed in his store. Other blueprints show the exact sections of the shelves or counters on which each article must be placed. The arrangement of merchandise is changed twice yearly. For example, at Christmas time, plum pudding, spices, mince-meat, and other articles which are in demand at that season are placed on the shelves nearest the cash register; and during the summer

months lime juice, ginger ale, grape juice, oranges and lemons are placed on these shelves.

The most difficult problem in the expansion of the Nixon Company is to secure desirable sites for new stores. Even though the company has sufficient capital to develop 10 or 15 additional stores, it is extremely difficult to secure desirable locations at reasonable rentals in good neighborhoods. At present, the company has equipment stored in its warehouse sufficient to fit up 24 more stores.

Questions

1. Would it be advisable for the Nixon Company to operate a real estate department?

(*a*) If so, what should be its duties?

2. What sort of an organization should the Nixon Company have to insure the proper control of the operations of its 207 stores?

Organization 14

Sherwood Department Store—Separation of Buying and Selling

In the Sherwood Department Store buying and selling recently were placed under separate executive heads. Although this store is located in a large eastern city within a few hours of the New York market, the board of managers has decided that buying and selling merchandise are sufficiently different functions to warrant separation. The yearly sales volume of the Sherwood store is approximately $19,500,000. This store specializes in women's wearing apparel and features merchandise that makes a direct style appeal.

Now that the organization has been changed, the function of the buyers is to secure the "right goods at the right price"

and to see that they are delivered on time to the receiving room in the Sherwood store with the least possible expense. In addition to these duties the buyers determine the retail price, superintend the reserve stockrooms which are decentralized, see that their departments are supplied with new merchandise, and cooperate with the publicity department in the proper featuring of their goods by both window display and newspaper advertisements. In this work the buyers are under the control of the merchandise manager and his assistants.

The selling functions of the store are under the service superintendent, who has complete charge of all salespeople, cashiers, telephone operators, corset fitters, the adjustment bureau, and the personal service departments, including barbers, manicurists, and hair dressers. This service superintendent has under him a group of floor superintendents, who are directly in charge of the salespeople on each floor.

Across the street from the Sherwood building is the Howard store, which has a yearly sales volume approximately $2,000,000 smaller than that of the Sherwood store. The directors of the Howard store are convinced that the head of the department selling the goods is the one who best knows the needs of the store's customers and who, therefore, is the logical person for buyer.

A situation somewhat different from that in these two eastern stores is presented by the Astoria department store on the Pacific Coast, which during the last three or four years has done a business of approximately $10,000,000 annually. Since it is located far from the primary markets, it finds a strong buying department essential. Although at the present time the buyers are the heads of the departments, the management is contemplating a change in organization which will place the sales manager in charge of all selling operations and leave the buyers free to concentrate their attention solely upon the purchasing of satisfactory merchandise.

Questions

1. What are the advantages and disadvantages that will accrue to the Sherwood store from the separation of the buying and selling functions?

2. What factors should be considered by the owners of the Astoria store with regard to the proposed change in their organization?

3. If this plan should be adopted by the latter store, what provisions should be made for contact between the buying and selling divisions?

Organization 15

Sherwood Department Store—Coordination of Buying and Selling Departments

With the organization of distinct buying and selling divisions in the Sherwood Department Store in April, 1921, a new series of problems arose in securing the proper coordination of these two functions. Instead of supervising both the purchasing and selling of merchandise, the buyer is now held responsible only for the proper performance of the first function, while the service department has complete charge of the making of all sales.

For the purpose of keeping the buyer informed of the tastes of his customers, a "Failure to Sell" record is kept in each department. In this book is entered every instance of failure to sell merchandise to a prospective customer, and the reason for such failure. Thus if a customer refuses to buy because the price is too high, because the merchandise is not of the right style, quality, or color, or because she wishes to look elsewhere, the salesperson records this fact for the information of the buyer.

Price card records are also kept which show the speed of sale of each lot of merchandise. Whenever a shipment of goods is received, a card is made out for each lot giving the amount of merchandise received and where the goods were purchased. These cards are kept in the office by a clerk who makes entries, from the sales slips, of the daily amount of goods sold. In case

the merchandise of a particular manufacturer fails to move readily, the buyer is informed of this fact, and from the "Failure to Sell" record he can find out some of the reasons why the merchandise fails to sell.

In about 30% of the departments a perpetual inventory of stock is kept according to lines, styles, and sizes. Every day before noon the buyer can find out from this record how much merchandise was on hand in his department at the close of the preceding day.

The buyer has the freedom of his department at all times, and often assists in the actual selling of the goods, although he is not responsible for the proper performance of this function. In this way the buyer secures first-hand information of the demands of the store's customers.

The assistant buyer has charge of all clerical work in the department. It is his duty to see that the lines of merchandise in the department are replenished from the reserve stockroom, and that the goods are received on time from the manufacturer. He also retails all orders, and sometimes assists in selling merchandise during the sales peak of the day. Through his constant touch with the selling organization, the assistant buyer is able to give his superior additional trade information.

The shopping bureau follows closely the styles and prices of the merchandise carried by other stores. Thus if a competitor secures at a low figure an exceptionally good line of merchandise which he can in turn offer to his customers at a low price, the shopping bureau notifies the buyer of this fact so that the latter can take advantage of this information in the pricing and selection of his own goods. Samples of a competitor's merchandise are frequently purchased, compared as to quality, style, and price with a similar line of goods carried by the Sherwood store, and after having served their purpose of comparison, these samples are often remarked and placed in the department for resale.

Question

What further steps should be taken to secure better coordination of buying and selling in the Sherwood Department Store?

Organization 16

The John R. Kaskell Company—Relation of Inventory and Discount Policies to General Organization Control

The John R. Kaskell Company was founded about 60 years ago. The business remained in its original location, expanding steadily until in 1918 the volume of sales was $17,465,892. This company operates a general department store with 80 departments carrying the usual line of piece goods, ready-to-wear, small wares, furniture, and house furnishings. It has been the policy of this firm for many years to allow the buyers, who act as department heads, to have great freedom in the way they conduct their departments. Salaries paid to buyers in this store average considerably higher than those paid to persons in similar positions in other department stores in the same city.

In 1918 the organization of the John R. Kaskell Company was as follows: There were two main divisions: Selling, under the direct supervision of the president of the company, and Buying, under the supervision of the vice-president. These two were directly responsible to the Board of Directors. The Selling division was made up as follows:

1. A general manager in charge of personnel, employment, education, and welfare.
2. An assistant manager in charge of delivery, occupancy, the adjustment bureau, bookkeeping, and auditing.
3. A credit manager.
4. A controller.
5. An advertising manager.

The statistical department was directly under the controller, but also partially responsible to the vice-president in charge of Buying. The advertising manager had charge of all publicity work, including window display. He also was partially responsible to the vice-president in charge of Buying. These two executives, the controller and the advertising manager, formed the principal connection between the buying and selling divisions of the store organization.

The buyers of the various departments were directly responsible to the vice-president in charge of Buying. The receiving

and marking room, the reserve stockrooms, and the shopping comparison bureau were also under the control of the vice-president in charge of Buying.

In 1917, the executives began to think that the store organization, which had developed gradually without any definite planning, was not functioning well with the increasing volume of business. In particular, the need was perceived for greater coordination between the heads of some of the departments. Friction frequently developed because of the lack of some means for coordinating the advertising and the special sales events of the various departments. In order to remedy this condition a new position was created, that of general merchandise manager. A man who had achieved a success in a similar position in a Chicago store was employed to fill this place. He was made directly responsible to the vice-president in charge of Buying, with the duty of supervising and coordinating the work of the buyers in the various departments.

After a period of one year this plan was abandoned. The general merchandise manager had found it physically impossible to become well enough acquainted with the problems of each buyer to be able to command the respect and confidence of all of them. Some of the buyers had felt that they were being bossed, and since the policy of the store had always been to inculcate in buyers a feeling of their own responsibility and independence, there was a distinct undercurrent of resentment toward the general merchandise manager.

In 1918, a committee was appointed to make recommendations in regard to a new organization for the John R. Kaskell Company.

Question

What suggestions should this committee have made?

Up to 1918 each buyer had been solely responsible for the way in which his goods were bought, marked, and sold. No actual records of mark-downs were kept for the store as a whole. Some buyers had accurate records for their departments. Others said that they could estimate their mark-downs accurately enough by the difference between the original mark-up and the gross profit shown by their department at the end of the year. In 1918, the controller urged on the Board of Directors the adoption of the retail method of inventory.

Questions

1. What would have been the advantages and disadvantages of the retail method of inventory to this store if this system had been adopted?
2. What changes would have been necessary to make it a success?

For a number of years it had been the practice of the Kaskell Company to require each buyer to earn a cash discount of 8%. In cases where the buyers did not succeed in getting an 8% cash discount on their purchases, the difference in dollars and cents between the discount received and the required figure was added to the invoice figure of the cost of the merchandise. For example, if a buyer bought a bill of goods for $100, and received a cash discount of $6 instead of the $8 required, the other $2 was added to the cost of the merchandise; that is, on his departmental sheet this particular lot of merchandise would be entered at $102. This practice is commonly termed "loading." The store executives believed that in this way they were insuring for the store a profit of at least 8% on the working capital invested in the merchandise. The president of the company, however, became convinced in 1918 that this arrangement resulted in too many buyers looking harder at the discount than

they did at the merchandise. He also thought that in case the store should adopt the retail method of inventory there would be some danger of getting inflated inventory figures if the practice of "loading" were continued. In the event of "loading" being abandoned there were several possible plans.

(1) The cash discounts actually received might be carried as reserve for the business as a whole without the purchase figures for the various departments being in any way affected.

(2) Each buyer might be allowed to show the discount received for his department as an earning of his department.

(3) Each buyer might be required to deduct the amount of the discount earned from the face of the invoice before entering the purchase on his records.

Question

Which one of these plans should have been adopted?

B. STORE ORGANIZATION PROBLEMS

2. ORGANIZATION OF ADMINISTRATIVE DEPARTMENTS AND PROVISION FOR CONTACT

Organization 17

The Fogg Drug Company—Organization of a Small Drug Chain

The Fogg Drug Company, with headquarters in a small city in New England, operates at present six retail drug stores. In 1919, its sales amounted to approximately $750,000, the sales at the main store being $400,000 of this total. There is one other store located in the same city as the main store, and the other four are in smaller towns and cities within a radius of seven miles of the main store. One of the others had a volume of business in 1919, amounting to about $200,000, the others about $35,000 each.

A warehouse is operated in connection with the main store. Most of the stock is carried in this warehouse, and deliveries are made daily by truck to the other stores.

The main store is largely under the supervision of Mr. Lawrence Fogg, president and general manager, who at the same time is in close touch with the warehouse and the laboratory, where about 50 drug preparations are compounded. All these are sold exclusively through the Fogg drug stores. In addition, the laboratory controls three branded preparations which it sells at wholesale to other drug stores. Mr. Fogg has charge of these sales. He also personally supervises the managers of branch stores. Daily reports of sales and the financial condition of each store are submitted to him. All accounting is centralized.

The branch store managers keep cash on hand up to $25 without consulting the general manager. In other matters than buying they are given complete freedom. Selling policies, control of personnel, and layout of the branch stores are questions that are not presented to Mr. Fogg. The branch managers likewise do their own advertising, though they are restricted to a budget determined by a fixed percentage of the sales of the previous year.

The Fogg Drug Stores have a good reputation for their service and prescriptions. A separate prescription department is maintained in connection with the main store, where much prescription work is done that cannot be handled by the prescription clerks in the branch stores. In consequence of their good service on prescriptions, all these stores have a high standing with local physicians.

The gross profit of the Fogg Drug Company in 1919 was 38% of net sales, net profit, 5% and the stock-turn 3.1 times.

The Fogg Company plans to expand as rapidly as new stores can be absorbed into the organization without calling in outside capital or borrowing excessively from the banks. Developing for the immediate future will be confined to a radius of 18 miles from the main store. Within this area are 42 locations that are considered as possible sites for future Fogg Stores. Of these, 10 are now occupied by pharmacists, each doing a business on an average of less than $40,000 a year.

Mr. Fogg has secured options on four locations, which are to be opened as Fogg branches in six months. Three of the four new managers have already been chosen. Complete

financial arrangements have been made to accommodate the additional one, and alterations are already under way in two of the stores. Seven other sites are being closely studied, the intention of Mr. Fogg being to acquire seven stores at these points within a year after the opening of the four new links to the chain.

In the past, Mr. Fogg has sometimes recruited new managers from the personnel of his old stores, sometimes from the former owners of stores that the Fogg Company has bought out, and sometimes from the outside. He proposes to continue filling branch managerships without tying himself down to any set rule.

Questions

1. On the assumption that 11 new stores will be added to the Fogg Company within the next 16 months, what changes, if any, should be made in the organization?
2. In what respects does the Fogg Drug Company, in its present stage of development, operate at any advantage over large chain drug store competition?
3. In what respects does it operate at a disadvantage?

Organization 18

Brockhurst Stores, Inc.—Organization

The Brockhurst Company operates 170 retail grocery stores in a large Massachusetts city. Weekly sales in these stores range from $400 to $1,800. The stores carry groceries, potatoes, and onions, and some fruit, but no meats, bakery goods, or green vegetables.

All merchandise is supplied from a warehouse located just outside the city. The offices of the company are also situated at this point. Practically all the accounting is centralized in the company's main office. The central employment office supervises the hiring, training, discharge, and promotion of employees. The smaller stores are run by one man alone. In some of the larger

stores there is a regular full-time assistant to the manager; others use the services of boys on one or two afternoons a week. All these stores are operated on a cash-and-carry plan. The managers deposit cash daily. Inventory is taken monthly. Managers are furnished with blanks on which to requisition goods. These order blanks are compared with their weekly reports at the main office in order to keep some check on stock carried. Goods are delivered from the warehouse by truck and are billed to the stores at retail price.

Over each group of 15 to 18 stores there is a superintendent who calls on each store daily. The company has nine superintendents, divided into groups of three; over each of these groups there is a supervisor. The employee management department is coordinate with the supervisors. All these are directly responsible to the head of the firm.

Up to 1919 the Brockhurst Stores had been doing some mail-order business in districts outside of the city. In the beginning of that year, however, it was decided to discontinue this branch of the business and to extend the chain into other sections of New England. During the first few months of 1919 new stores were established at the rate of 8 to 10 per month. It was planned to use the city warehouse to supply these stores. The most serious problem was that of organization. The question was whether to incorporate the new stores with the existing organization or whether to establish a separate organization for them.

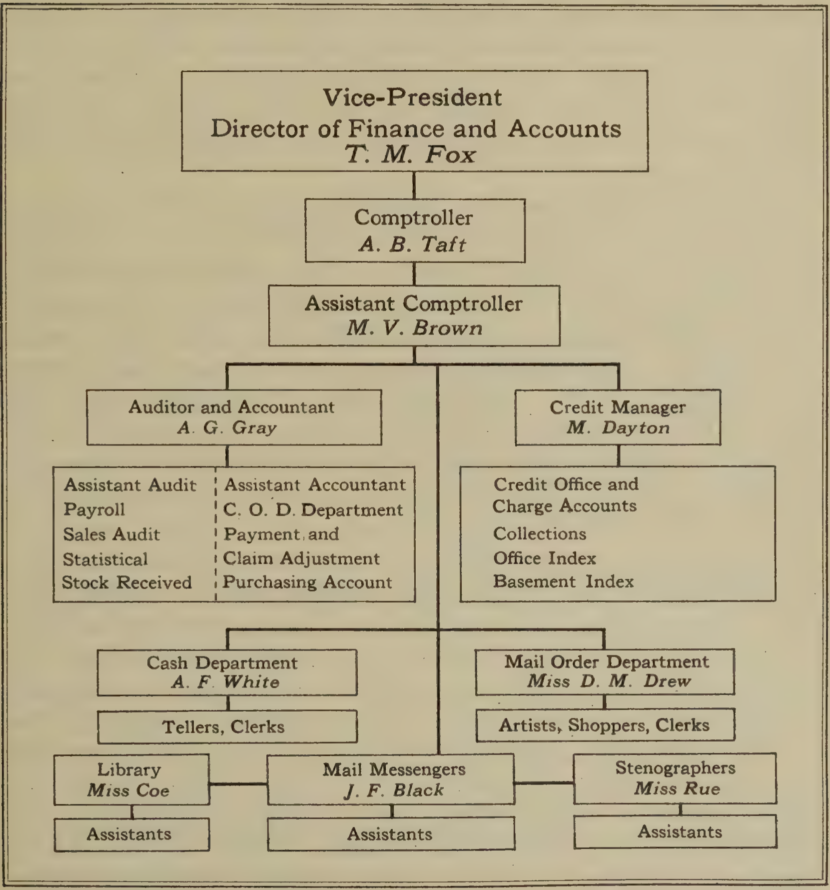
Questions

1. What points have to be considered in deciding this question?
2. What changes in the old organization would have been necessitated by the incorporation of the new stores into it?
3. In case a separate organization for the new stores were adopted, how should it differ from the existing organization?

Organization 19

Wilmarth Department Store—Organization of Administrative Departments and Contact with Rest of Store—Controller's Department

In the organization of the Wilmarth Department Store, a vice-president and member of the firm is in charge of the financing and accounting work of the store. (See Form 31 below). This store has an annual sales volume of approximately $18,000,000; but the amount of money tied up in merchandise on hand



FORM No. 31. Wilmarth Department Store—Administrative Organization Chart

varies from month to month. Since this store operates on its own capital, it is the duty of the director of finance to make arrangements for loaning on call to the banks any surplus which may accumulate. He is also responsible for the daily receipts and disbursements of all cash, for the general budgeting of the store, and for the credit and mail order policies of the business.

Immediately under the director of finance are a controller and assistant controller, who are responsible for the actual carrying out of these policies. The controller estimates the buying appropriation for the store for a season by finding out the probable needs of the different buyers. He usually determines those figures after conferring with the merchandise managers and modifying their demands according to the past records and the amount of money available. The controller also makes up the expense budget for the store covering all operating charges, and any change in either one of these budgets must be approved by him before it can take effect.

Every month the controller informs each buyer of the amount of merchandise which he can purchase for that month. Through his control of the "open to buy" figures, this executive really controls the amount of merchandise which can be purchased. Although these limits may be changed to permit the securing of special lots of merchandise for a sale, such change must always be approved by the controller. The administration of the budget and the determination of the proper time of the month to make the purchases is left in the hands of the merchandise managers. If any difficulty arises, however, the controller is called in to help settle the matter.

Under supervision of the controller are the auditing and accounting departments, the credit department, the cash department, the mail-order department, the library, and various divisions of the office force necessary to do the work of the controller's division. Thus the controller is responsible, through his accountant, for seeing that a proper audit is made of the payroll, sales slips, statistical and stock records, and that the proper accounting records are kept of C. O. D.'s and all payments, claims, adjustments, purchases, and insurance, as well as the regular accounts. The credit manager, under the controller's direction, is responsible for all charge accounts, and credit limits, and for the making of collections. Through the vice-president,

who is director of finance, the controller is kept informed of any policies adopted by the firm which affect his department.

Questions

1. What are the advantages and disadvantages of this method of control of the buyers' authority to purchase merchandise?
2. Should any changes be made in the organization of the controller's department?

Organization 20

Wayland-Prescott—Position of Statistical Department in Store Organization

The Wayland-Prescott department store has an annual sales volume of approximately $11,500,000. In the past the store has specialized in goods of the medium and low-medium grades, but during the last year and a half it has been stocking goods of higher grade and attempting to raise the average quality of goods handled. This store carries a complete line of dry goods, notions, men's and women's ready-to-wear, and house furnishings. It does not operate a restaurant, barber shop, manicure parlor, or other personal service departments.

In 1918 the store developed a statistical department, which was placed under the direction of an experienced statistician and separated from the auditing and bookkeeping offices, which were under the controller. The main purpose of this statistical department was to prepare figures for the merchandise manager, sales manager, and the higher executives. For the merchandise manager it kept statistics such as the following:

1. Perpetual inventory by departments; i. e., stock ledger.
2. Goods on order for delivery during the present month and for future delivery.
3. History of purchases by months.

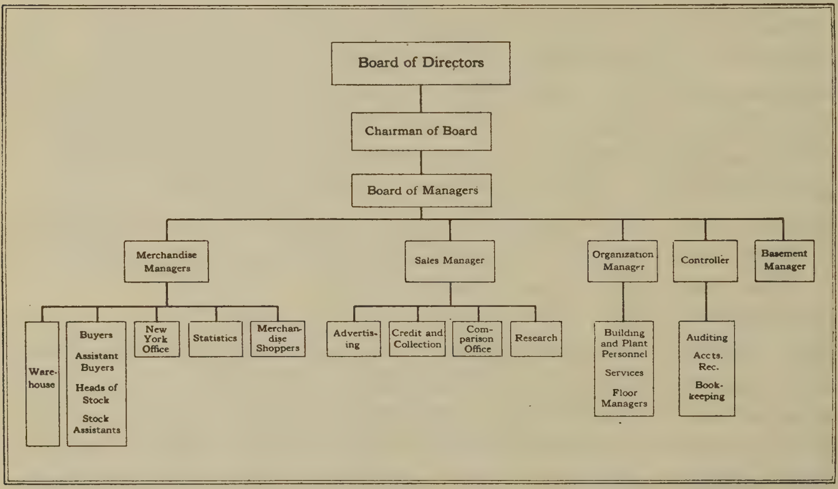
4. Sales by departments by months.
5. Gross profit obtained by departments by months.
6. Mark-up desired by departments by months.

For the sales manager it compiled such statistics as:

1. Sales by departments.
2. Sales by departments during special sales.
3. Results of advertising
4. Operations of manufacturing departments.

For the higher executives this department compiled balance sheets, figures on expenses, personnel efficiency charts, and a large number of other regular and special reports on the operations of the store.

The statistical department, furthermore, frequently was called upon to furnish special reports to the organization manager and the controller. These special reports usually had to do with



FORM No. 32. Wayland-Prescott Store—Organization Chart

expense; and such subjects as costs of delivery by geographical divisions and by various types of equipment, costs of supplies by departments, and insurance expense by departments were among those handled.

From the time of its establishment, the statistical department had been under the direct control of the merchandise manager, as is shown in the store organization chart. In the spring of 1921 the Board of Directors decided on a revision of the organization. The position of the statistical department was one of the features of the organization which they believed should be changed.

Question

Where should the statistical department have been placed in the new chart?

Organization 21

James Anderson Department Store—Organization of the Selling Department and its Contact with the Rest of the Store

The organization chart of the James Anderson Department Store shows three pyramids: finance, merchandise, and service.

The merchandise pyramid has a merchandise manager at its head who is the vice-president of the company and a member of the firm. He is responsible for administering the proper merchandise policies, and for seeing that the stocks on hand do not exceed the limit which has been determined upon in making out the financial budget for the store. He is assisted in this work by division managers who have charge of the merchandising of the departments in their respective groups. Each division manager has under him a certain number of buyers, each of whom is a department head.

Each department is operated as an individual unit, although its policies must conform to those laid down by the executives of the store. In the women's suit department, for example, the unit is made up of a clerical worker, who handles all the

records for the department, the salespeople, and a cashier who makes change and wraps the bundles. Models are on the same footing as salespeople. The assistant buyer has supervision of the clerical work of the department and is responsible for keeping the piece cards and inventory records up-to-date, and for seeing that the salespeople keep a record of all failures to make sales to customers and the reason for such failures. The buyer, who is the head of the department, keeps up his stock and purchases new lines of merchandise in proper season. As the head of the department, he also has charge of the selling of the merchandise.

In order to make the most of the efforts of his salespeople, the buyer arranges with the publicity manager for all the window displays and newspaper advertisements. Since his department is charged a rental for the use of the windows, the buyer must make sure that the publicity manager makes a display which will benefit his department enough to warrant such an outlay. In planning a newspaper advertisement, the buyer selects samples of the merchandise which he wishes to have advertised, makes a few notes of the important selling points, and arranges with the advertising manager to have the copy written by the copy writers and the illustrations drawn by the staff artists.

In the control and discipline of his salespeople, the buyer is responsible to the personnel manager. The former does not have authority to transfer or discharge any employee under his supervision, but he must report all cases of inefficiency or improper conduct to the personnel department. In case the difficulty appears to be a minor one, the educational department may be called upon to give additional instruction to this particular employee with a view to increasing her efficiency. In case the worker is not suited for the duties of a salesperson in this particular department, the personnel manager may have her transferred to another section of the store, or if the facts of the case warrant it, he may have her discharged.

The handling of all charge accounts is delegated to the credit department. Whenever a customer wishes to have merchandise charged to her account, the salesperson must call up the authorization bureau of the credit department and receive authority to make such a charge. In case the merchandise is to be delivered by the store, it is not necessary for the salesperson to get in

touch with the credit department, as the sales slip is automatically checked before the goods are delivered.

When the merchandise first enters the store, the buyer is called to the receiving and marking room to inspect his goods in order to see that they are of the same quality and style that he ordered. Although the buyer retails his orders, he is not allowed to go to the marking room where the tags are marked and placed on the goods. He is responsible for the merchandise, however, as soon as it is placed in his reserve stockroom, where it is drawn upon to replenish the supply in his department.

Statistical information as to sales, charge accounts, and the amount of goods on hand in each department is collected by the statistical department from the sales slips and orders authorizing the purchase of mechandise. The buyer has no supervision over the collection of this information, and it is only brought to his attention when the merchandise manager finds that the buyer of this particular department is falling behind in his sales volume. At the first of each month, the controller sends each buyer a statement of the amount of merchandise he is supposed to have on hand, the total amount of his sales for the past month, and the amount of merchandise that he is "open to buy" for the coming month.

Questions

1. Might any changes advantageously be made in the organization of this selling department?
2. Should the buyer be given more supervision and assistance by other departments or executives of the store?

Organization 22

Hartong Department Store—Relation of Organization of Department to Merchandise Classification

The merchandise manager of the Hartong Department Store is confronted with difficulties arising from the fact that several departments carry the same merchandise. For instance, sizes 34 and 36 in suits, coats, and waists are carried in both the women's and misses' departments. Styles in women's clothing are supposed to differ somewhat from those in misses', but this is not always the case, as almost the same articles can often be found in both departments at the same time. Misses' wearing apparel, however, is cheaper in practically every case and women who can wear misses' clothing make their purchases in that division of the store. In the millinery departments the misses' and women's hat sections also overlap. A girl with a small head or with bobbed hair can buy a hat at considerably less cost in the misses' department and the hat is as good in quality and style as any she can find in the women's department.

Women's waists, moreover, are carried in two different sections of the store; fancy, imported, and domestic waists of expensive materials are near one of the main floor entrances, and the cheaper lines are carried on the third floor next to the skirt department. The merchandise manager believes that the sales might be increased if the two departments were combined, because a more complete line could be shown. The corset department handles not only high and medium-priced corsets and brassieres, but also bungalow and fancy aprons varying in price from 50 cents to $9. This line of aprons was added to the corset department several years ago because the buyer believed it would increase her total sales, and prevent her salespeople from being idle so much of the time. Aprons are also carried by the dress department.

It has been brought to the attention of the merchandise manager that hand-painted oilcloth doilies are carried in three departments: in the art department, near the entrance of the main floor; in the table linen department, and in the china and kitchenware department in the basement. This last department uses the doilies mainly for display purposes, but sells them if there is a demand. Vacuum bottles are carried

by the sporting goods department, the household furnishings department, and the jewelry department. Fancy silverware and silver dishes of the latest pattern are carried in the jewelry department on the first floor, but the majority of flatware and the plainer lines of silverware are carried by the china department in the basement. In every case where overlapping exists, the buyers refuse to give up their duplicate lines on the ground that their volume of sales would be reduced. Each buyer claims that he was the first to add these lines to his department, and since a buyer's salary is based upon his sales volume, he is reluctant to relinquish any advantage he may have secured.

Although the merchandise manager of the Hartong Store learned recently that in one of the large department stores some lines of merchandise are carried in as many as nine different departments, he is convinced that such duplication of stock is useless, and that the sale of any class of merchandise would be increased if it were carried in only one department. In the case of the vacuum bottles he believes that the difficulty can be solved by organizing a new department that would take over all merchandise of this class in the store, but he believes that such a step would not be a practical solution of the overlapping in the women's and misses' suit departments.

Questions

1. When should new departments be organized in the Hartong Store?
2. What should be the relation between the organization of departments and the merchandise classification?

Organization 23

La Petite Parisienne—Organization of a Single Selling Department

La Petite Parisienne is a ladies' specialty shop of the most exclusive type, occupying the first, second, and third floors of a building in the shopping district of a large western city. The store has 18 departments, as follows:

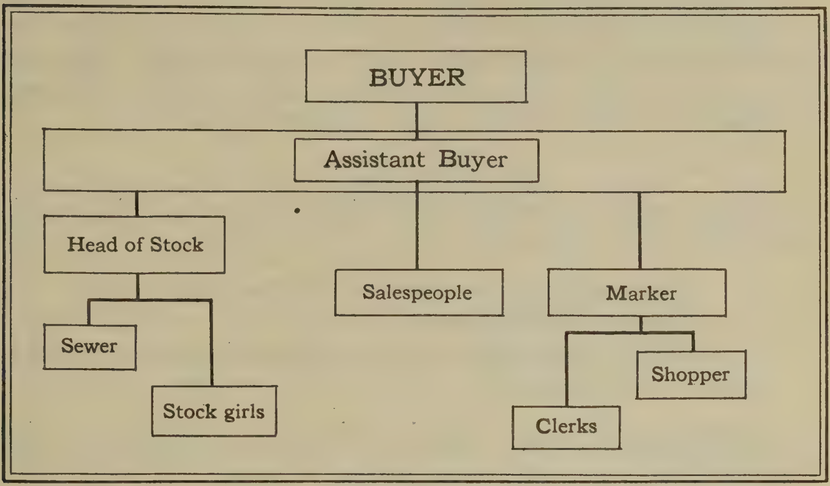
Gowns and wraps	Costumes
Dresses	Tailored suits
Skirts	Coats
Corsets	Brassieres
Silk underwear	French underwear
Philippine and Porto Rican underwear	Cotton underwear
Negligees and nightwear	Hosiery
Shoes	Millinery
Infants' wear	Children's wear

In each of the departments a complete line of sizes is included, from the largest women's sizes the shop carries down through misses'.

The store is operated on the retail method of inventory, using the formula that was developed by representatives of the National Retail Dry Goods Association, approved by the United States Treasury Department, and published by the National Retail Dry Goods Association in June, 1921. It has not found it advisable to use any form of piece control except in the first six departments named. Here this piece control is secured by using a serially numbered tag with three sections. Each section, that is, the tag proper and each of the two coupons, bears the serial number, the color, size, material, price, and date of receipt in code. One coupon is detached at the time the article is placed in stock. This coupon is filed according to serial number in the merchandise office. The tag proper with the other coupon attached follows the merchandise. When the merchandise is sold, the tag proper remains attached and goes to the customer. The remaining coupon is detached, and it accompanies the sales slip to the auditing office. From there it is sent to the mer-

chandise office, where the first coupon is removed from the files and both coupons placed in a reference file.

Each selling department of La Petite Parisienne is organized as indicated in the following form:



FORM No. 33. La Petite Parisienne—Chart of Selling Departments

In this form the various levels indicate roughly the importance of the different positions and the salary paid. The shopper is an exception to this generalization.

In this organization the buyer is in active charge of all work of the department, both buying and selling. The assistant buyer devotes most of his time to the work of selling, but assumes active charge of the entire department in the absence of the buyer and is an understudy for that position. The head of stock reports normally to the buyer, but the assistant buyer has some degree of control over her. She is responsible for the proper keeping of forward stock only. The stock girl in her charge must return all stock to its proper place on hangers or shelves, must attend to the arranging of new articles added to stock, and must take inventories at times indicated. The sewer makes minor alterations and repairs to garments. The marker, like the head of stock, normally reports direct to the buyer, but may report to the assistant buyer on occasion and is partly subject to his control. She has charge of the marking of all incoming

merchandise and the changing of price tickets in accordance with mark-ups or mark-downs taken subsequently. She is responsible for getting the merchandise into forward stock as soon as possible after it is received. The store has a rapid rate of stock-turn and aims to carry no reserve stock. The shopper is placed under the supervision of the marker and required to keep in contact with incoming merchandise in order that she may keep the buyer advised as to how his new lines compare with the new or the existing lines of other stores.

Questions

1. What are the advantages and disadvantages of this organization from the point of view of:

    1. Merchandise control and stock shortage?
    2. Rapid merchandising?
    3. Proper comparison of merchandise in this store with that in other stores?

2. Is this organization best adapted to the needs of La Petite Parisienne?

    (*a*) If not, what changes should be made?

3. Wherein do the requirements of La Petite Parisienne in respect to the organization of a selling department differ from the requirements of the ordinary department store?

Organization 24

Endicott, Andrews Co.—Organization of Administrative Departments—Conflict of Authority

The Endicott, Andrews Company operates a department store in the main retail district of a large city. In the development of this store, department after department was gradually added to take care of the increasing sales volume and the additional amount of service required by its customers. The establishment of restrooms and restaurants for customers and employees, men's and children's barber shops, complaint bureaus, a post-office branch, a first-aid hospital, and many other departments required an ever increasing number of employees. In order to carry on these new services of the store, many systems were developed. Often these systems were established to take care of a temporary emergency; and were installed without due regard for their relation to the other systems already in use in the store.

The non-selling division of the store was divided into four sections, covering service, maintenance, office, and personnel. The service manager had charge of the waiting room, elevator service, fire brigade, and shipping and delivery service. The maintenance manager had charge of the purchase of supplies and equipment and was responsible for the maintenance of the elevator, and the lighting, ventilating, and heating systems of the store. Under his supervision were the watchmen, porters, carpenters, painters, sweepers, housekeepers, and show-case cleaners. The office manager had charge of all clerical work in the store, including credit, audit, mail order, charge accounts, stock accounts, C. O. D. accounts, statistics, mailing, stenographic service, cashiers, and all records. The personnel superintendent had charge of the employment of salespeople, office workers, general employees, and juniors. He was responsible for the education and training of all employees and for the operation of the first-aid hospital and restroom, and had complete charge in all matters affecting discipline, promotion, the salaries of employees, and the store's policy toward its workers.

Many of the departments under these different managers had relations with all the different divisions of the store; for example, the elevator section was responsible to the service division for

furnishing proper service to customers; it was required to operate elevators according to the rules laid down by the maintenance manager; it furnished reports and received instructions through the office; and it was responsible to the personnel manager in all matters in connection with securing new employees and disciplining or promoting experienced workers. Other departments of the store also were under the supervision of these divisions. Since each department had developed its own system, there was much duplication of effort and lack of coordination.

To remedy these difficulties it was decided to follow the policy of many of the modern industrial plants and to establish a planning department which would study the conditions in the store and eliminate duplication of effort and useless systems wherever possible. When new departments were added to the store, the planning department would see to it that the functions of the new departments were coordinated with those of the departments already established.

The planning department also was to determine what was a "fair day's work" in each department in the store, and cut down the amount of time wasted by employees through idleness, by shifting certain workers from one department to another to take care of the rush periods.

The planning department was accordingly organized, and a man secured from one of the large industrial plants to take charge of it. The head of the planning department was given a staff position as advisor to the main executives of the company. In the study of conditions in the store and in putting into effect revised systems, he encountered frequent difficulties. Many of the department heads considered that a study of their department or any suggested change in the methods which they were following was a reflection on their ability and authority to operate their departments. Although they did not openly oppose the planning department in its work, nevertheless, they often refused to cooperate to the best of their ability. After a system had been installed, furthermore, changes were sometimes made by the department heads, not only to suit their own convenience, but because one of the assistant managers in the personnel or maintenance division did not like the new scheme. Consequently, much of the work of the planning department was rendered ineffectual.

The board of directors were uncertain as to what steps should be taken to remedy these conditions. It had been suggested that if the head of the planning department was placed in charge of the four main divisions of the non-selling section of the store, the various department heads would cooperate with the planning department. It was thought that as long as the head of the planning department held only a staff position, he could not exert enough authority to secure the efficient operation of the system he installed. On the other hand, it was the opinion of some of the directors that the head of the planning department should not be placed over any particular division of the store, but that he should operate in an advisory capacity, and that any changes should be made on the authority of the president or other high executive.

Questions

1. Where should the planning department have been located in the organization of the Endicott, Andrews store?
2. What steps should have been taken by the board of directors to remedy the conflict of authority?

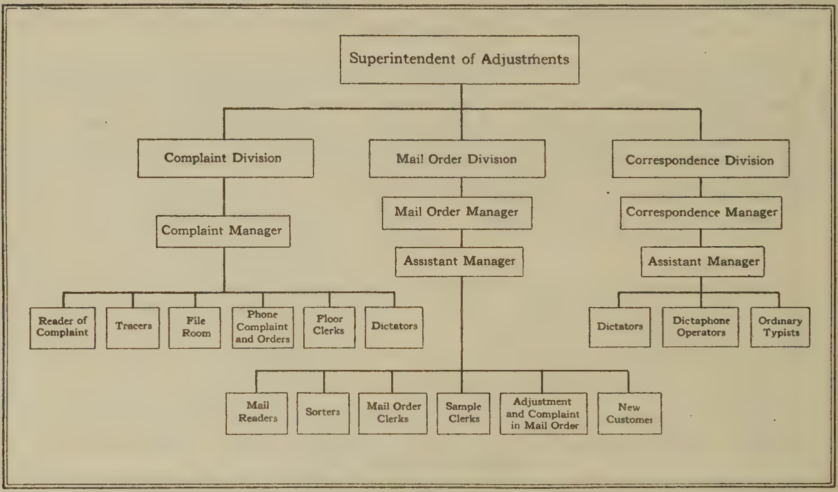
Organization 25

J. H. Carrington Company—Location of Mail-Order and Correspondence Departments in Organization Chart

In the store of J. H. Carrington Company, the mail-order and correspondence departments are located as shown in Form 34, on page 280.

In the mail-order division the readers go through all mail which comes in, except that addressed personally to executives. All mail is opened in the cashier's office before being delivered to the readers, and orders containing remittances are held there until the remittance has been removed and the order stamped. After having been read, the mail is sorted by departments and

dispatched through the interior post-office. Mail orders are sent to the mail-order clerks, who write out proper order blanks for the orders and forward these blanks to the mail-order shoppers in the respective departments. A shopper fills each order, and the goods are dispatched for delivery in the normal way. Letters requesting samples go to the sample clerks, who procure the samples and prepare them for mailing. If a letter is to accompany the samples, it is dictated by the dictators in the correspondence division. Any mail regarding adjustments and complaints from mail-order customers is handled by the adjustment and complaint section under the mail-order management. Mail orders from new customers go to the new-customer section for entry on the list of customers.

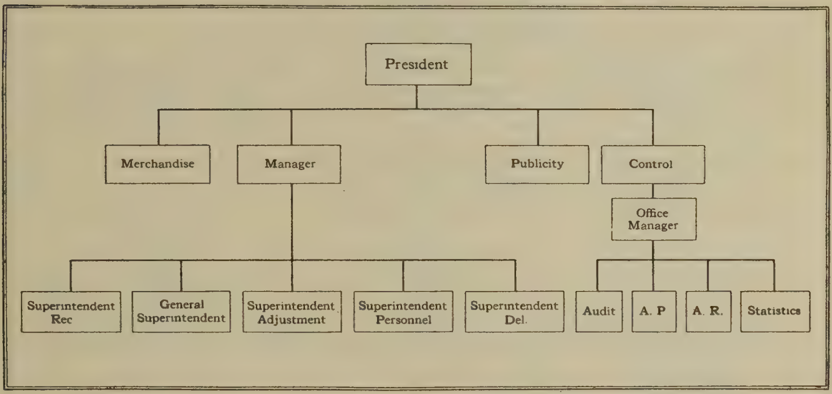


FORM No. 34. J. H. Carrington Company—Office Organization Chart

In the correspondence division the correspondence manager has charge of the training of help and exercises general supervision over the division. Her assistant looks after the collection and distribution of work and exercises immediate supervision over the typists and dictaphone operators. Each executive in the store has his own secretary who handles his dictation. Buyers, department managers, and others who have occasion to give dictation, use a dictaphone, the records of which go up to the correspondence department to be transcribed. The

dictators shown in the organization chart for this department handle the dictating of letters from statements furnished by the sample clerks in the mail-order division and the tracers in the complaint division. Straight copy comes to the department by messenger and this is handled by what are called straight typists, that is, typists who do not take dictation from the dictaphone.

The relationship which the superintendent of adjustment and those under him bear to the rest of the organization is shown by Form 35 below, which also makes clear the location of other office functions under the controller.



FORM No. 35. J. H. Carrington Company—Organization Chart

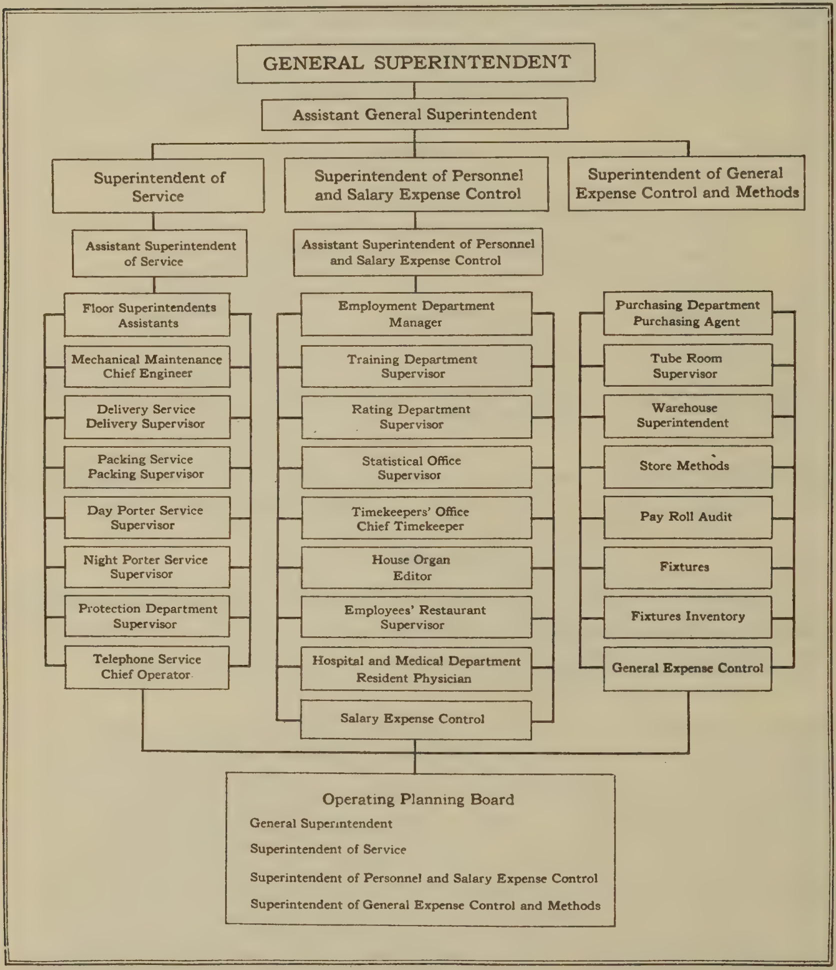
Questions

1. Unless there are substantial personal reasons, is this arrangement of authority and function sound?
2. Should any changes be made?

Organization 26

Le Shane's, Ltd.—Organization of General Superintendent's Office

Le Shane's, Ltd., is one of the largest department stores in Canada. In 1920, the store sold merchandise to the value of $21,037,469, through its 67 departments. In 1919, Mr. Le Shane inaugurated what he called a "general stock-taking." For 8 or 10 years the store had been running along with an organi-



FORM No. 36. Le Shane's Ltd.—Chart of Organization of General Superintendent's Department

zation and building which had been designed for a volume of business of around $10,000,000 a year. In addition this organization and building had been designed in accordance with the idea of management and of merchandising which had prevailed in the early part of the twentieth century. Now Mr. Le Shane felt that both were inadequate and out of date. As a result of this "stock-taking," the store erected a new building and made a general revision of its organization chart. A number of functions which had belonged to various executives throughout the store were taken away from these executives and grouped under the supervision of a new officer, the general superintendent. These functions were given over to the general superintendent because they were similar or gave rise to similar problems, and partly because the special aptitude of the new general superintendent enabled him to care for them better than could anybody else in the organization.

The general superintendent's office, after all changes had been made, was organized as shown in Form 36 on page 282.

Questions

1. Is this arrangement sound?
2. Should any functions included here have been placed under the merchandise or the financial division of the organization?

Organization 27

The Hancock Store—Relation to Management

The Hancock store on the Pacific coast, employing in the neighborhood of 1,470 people, makes a particular effort to employ intelligent salespeople and secures many of its executives at high salaries from progressive stores in Boston, New York, and Philadelphia.

At the head of the organization of this store are the president, two vice-presidents, and the treasurer. Under these chief

executives the store is divided into five divisions: publicity, merchandise, service and maintenance, office, and personnel. The managers of these five divisions are capable men; the publicity manager had considerable experience in Chicago, New York, and Boston stores before joining the Hancock organization; the merchandise manager and the personnel manager received their training in one of the largest stores in New York City; the office manager has had 12 years' experience in one of the best known stores in Philadelphia; and the manager of the service and maintenance division secured his training and experience in the stores of Montreal and Boston. Many of the buyers and lesser employees also had considerable experience in other stores before coming to the Hancock Company. As the store has developed and increased its sales volume, new departments have been added and new systems introduced from time to time. When a new method of carrying out some office is adopted, it becomes a part of the routine and is seldom superseded, even though later it is of little use.

The Hancock store is finding competition keen at the present time, and the chief executives of the company wish, if possible, to reduce expenses. They are convinced that much can be accomplished toward this end by doing away with the old systems which have outlived their usefulness; but they are not agreed as to the best way to go about making this change.

It has been suggested that since the division managers are as capable men as can be found anywhere in the country, and since the store pays them large salaries, "it would be a good thing to let these managers organize their own departments and earn a little of the money that is paid them." It appears that no one understands the needs of any one division in the organization better than the manager of that division, and that it would be wise to permit the managers to plan the organization and thus save the store the expense of outside experts, or of a planning department operated by men who have never had the responsibility for the proper administration of any of the divisions in the organization.

On the other side of the argument, it can be said that a division manager is often so close to his job that he is unable to determine what changes should be made. It seems to the executives of this store that if their division managers were capable of

making efficient changes they would already have suggested them. Furthermore, they think it possible for each division manager to be so interested in the success of his own division that often he fails to consider the good of the store as a whole in his interest in building up the departments in his charge. Consequently, it seems to them that it might be wise to organize a planning department and place the work of reorganization in the hands of a group of specialists who will study the conditions in the store and install systems that will insure the proper coordination of all the various functions in the organization.

The question of whether or not to organize a planning department has been referred to the board of directors for settlement. The board agrees that a general overhauling of the entire organization is necessary and that even after this task has been accomplished changes must be made from time to time in order to keep the various methods up to date. The executive committee, which has made a detailed study of the operating expenses of a planning department, has reported to the board of directors that it would cost $15,500 a year at a minimum if a planning department were installed in the Hancock store.

Question

Should the board of directors authorize a planning department for the Hancock department store?

Organization 28

Bender Department Store—Organization and Relation to Management—Executive in Charge of Public Relations

The Bender Department Store, employing over 2,000 people, is faced with a number of problems concerning its relations to the public. On two occasions during the past year a member of the firm has been called to Washington to appear before a Congressional Committee. The store has been asked to contribute to the National Retail Conference, which intends to educate the

public generally in regard to the cost of carrying on a retail business.

The city wishes to establish a boulevard through the shopping district by the widening of one of the main streets, At present, two plans are under consideration, one of which involves the widening of the street on which the Bender Store is located, while the other is for widening the street a block away.

In filling out Government reports and tax returns, a great deal of trouble has been experienced by some of the retail stores because of the official rulings that have been made. To convince these officials of the need of making certain changes, the Bender Store has been asked to join with others in making a contribution which will support research work carried on for the purpose of securing sufficient data to demonstrate to the Government officials that a change in the old forms and rulings is necessary. Banks which have faced these problems have often designated a vice-president as the executive in charge of public relations, but the department stores have not usually taken such a step.

Another group of problems of a somewhat different nature, but nevertheless important in the building up of a large clientele, are questions connected with publicity work and supervision of employee activities. The Chamber of Commerce of some small town occasionally wants an after-dinner speaker to address their meeting for the purpose of instructing the local merchants in modern merchandising methods. The employees of the store, to cite another example, may want to stage a vaudeville show to raise money for a rest home to which their fellow workers can be sent when recovering from illness or when in need of recreation. A fraternal order is planning to hold a convention in the city, and the store has been asked to contribute to the general fund for the entertainment of the visitors. The City Board of Trade is anxious to stage a joint picnic and field day of the employees of the different stores. This body also wishes to have all the stores adopt a uniform closing hour and give all employees Wednesday afternoon off during the months of June, July, and August. Questions such as welfare work, mutual benefit insurance for employees, and the establishment of a training course for junior executives are continually arising in the Bender Store. The managers feel that they cannot be expected to pass on all these problems, and yet these questions

are too important to be relegated to the desk of some minor executive.

Questions

1. Should all questions affecting public relations be placed in charge of one man?
2. If so, what should be the probable rank of such an executive?
3. Which of the above types of problems should be considered as belonging within the field of "public relations?

Organization 29

The Alexander Co.—Standard Problem Analysis

The Alexander Co. Department Store is one of the largest stores in its city and it has a yearly sales volume of approximately \$18,000,000. The store has been conservatively managed, has carried moderate-price goods, has avoided sensational mark-downs, and has not tended to elaborate decorations or furnishings in the store. The management, however, has had a reputation for progressiveness and has generally adopted any new methods of proved worth. In the past many changes in the direction of greater efficiency in the operation of the store have been inaugurated, and these changes have always been preceded by a more or less thorough investigation. Nevertheless, the president, Mr. J. B. Thomas, has come to believe that in these investigations a more scientific method of approach could have been devised, and for a number of months he has been giving some consideration to this problem. He reasons that with a large number of men of different types of mind and of varying ability and training making these investigations, it is unlikely that the best and most efficient method of analysis can be arrived at by all working independently. In order to insure more careful and more uniform investigations, Mr. Thomas has decided to devise a set of standard questions to be answered by the men investi-

gating any job or method in the office with a view to recommending changes. The result of Mr. Thomas' work is the following "Analysis Sheet."

Name of Operation..........................
Date of Observation..........................
Person Making..........................

---

1. Describe Operation..........................
....
....
2. How often done? Daily........S.W........W........B.W........M........Q........A........
3. Where done.......................... Number of persons doing..........................
4. Source.................. Preceding operation.................. Operation following..................
5. Purpose of operation..........................
6. Is purpose justifiable?.......................... 7. Is it accomplished?..........................
8. Can it be accomplished otherwise?..........................
9. Are other records available to serve same purpose?..........................
10. Can any portion of operation be eliminated and still accomplish purpose?..........
Describe..........................
....
11. Does any part of this operation duplicate work on any other?..........................
12. Can operation be combined with another to advantage?..........................
13. What is unit of work?..........................
14. What is total time per day devoted to this work?..........................
Number of units done?..........................
15. What is net time required present method? (Time for one x number done)
....
16. Describe equipment used..........................
17. Can equipment be changed to better operation?..........................
18. Is flow of work continuous or interrupted?..........................
(*a*) If interrupted can this be prevented?..........................
19. Are workers well adapted to work?..........................
20. Are workers interested?.......................... 21. Are they expert?..........................
22. Do all workers use same method?..........................
23. What incentives are used to encourage production or quality?..........................
....
24. Are there unnecessary motions of fatigue of following sorts?

Walking..........	Lifting..........	Sorting..........	Talking..........
Standing..........	Bending..........	Rubber stamping..........	Noise..........
Stooping..........	Reaching..........	Writing..........	Use of Eyes..........
Twisting..........	Handling..........	Filing..........	Repairing..........

Questions

1. Should any changes be made in these questions, or in their order, for use in these investigations?

2. Should Mr. Thomas' "Analysis Sheet" be taken over without alteration for investigations in the delivery sorting room; in the alteration department for men's clothing; in the garage; in the receiving and marking room; in the candy manufacturing department; in the reserve stockrooms?

3. What changes, if any, should be made?

Organization 30

Robert W. Stone & Brothers—Elimination of Adjustment Bureau

The department store of Robert W. Stone & Brothers in a southern city is one of the city's conservative stores with a well-established business and an enviable reputation of long standing. In 1918 its sales volume had fluctuated between $12,000,000 and $15,000,000 for several years.

At this time the store had an adjustment and complaint bureau occupying a space valued in rental at $1,000 a year. The payroll of this bureau totaled approximately $12,000 a year. This sum included the pay of several stenographers who at times worked for other departments, but this work was so occasional that it was not thought necessary to apportion their salaries among those departments.

In the fall of 1920, it seemed advisable to reduce expenses in the store, and the board of directors decided to eliminate the adjustment bureau and turn its functions over to the buyers. Customers, according to the new plan, were to make their complaints to the floormen. If these men were unable to settle the matter, it was to be taken to the buyer or, in case the buyer was absent from the store, to the assistant buyer. Buyers

were paid a salary and a bonus which depended upon their net sales and the increase in the volume of the net sales over that for the preceding year. Any refunds or allowances made to customers were deducted from the gross sales to arrive at net sales. The assistant buyers were paid on a straight salary basis. Most of the buyers in this store had been with the firm for upwards of 10 years. They were subject to little control because the management was confident that they would run their departments in accordance with the best interests of the firm.

The system of handling adjustments was placed in operation as outlined, and seemed to work smoothly enough until one day in the spring of 1921, after it had been in use perhaps six months. On that day a customer, very much excited, came to the manager's office accompanied by the buyer of the shoe department. She was a large woman and complained that she had purchased a pair of shoes with high heels, that she had worn these shoes only once, when one of the heels broke off, and that the buyer had refused to repair the shoe or refund her money. The buyer explained that the customer had identified the salesperson who sold her the shoes and the salesperson had stated that she remembered the transaction; she said that she had been careful to warn the customer that it was not wise for her to purchase those shoes and had predicted that very likely the heels would break off. On the basis of this statement by the salesperson the buyer had determined that the customer's demand was unreasonable, and he had refused to grant her credit. The customer had been dissatisfied with the decision and had insisted on seeing the merchandise manager.

The manager investigated this case further, and found that the woman was a good customer of the store and had made large purchases in other departments in the past. It happened that the unfortunate incident which brought her to his office had followed her first purchase in the shoe department. Under the circumstances the merchandise manager decided that it would be best to refund the customer's money. The incident, moreover, convinced him that the buyers were perhaps too ready to take sides against the customers in making adjustments, and he judged that this readiness was due very largely to the fact that buyers did not want to reduce their net sales by

increasing the number of refunds. Accordingly the merchandise manager brought the question to the president.

The president was quick to reach his solution. He said, "If the buyers are going to refuse to grant refunds and adjustments for fear it will cut down their bonuses, we'll create a special account out of which we will pay all refunds. The buyers, hereafter, will be paid on gross sales."

Questions

1. Should this solution have been adopted?
2. What other solution might have been suggested?

Organization 31

The Mayfair Bazaar—Organization of Complaint Division

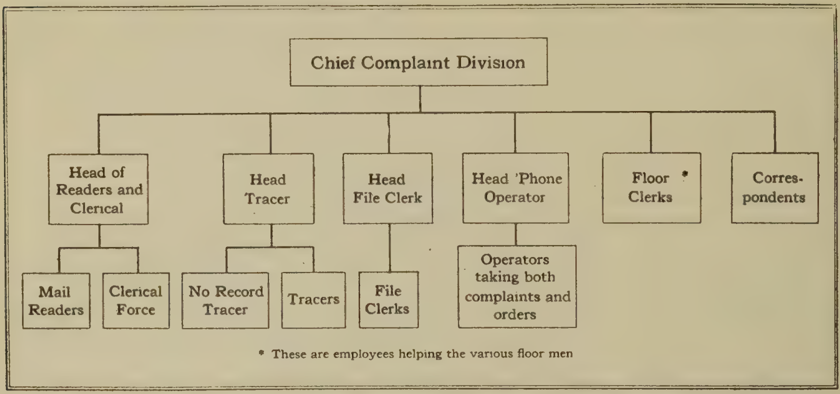
The Mayfair Bazaar, a department store in a large western city, is building up a large volume of business on the policy of selling goods for cash at prices lower than those for which articles of the same quality can be purchased elsewhere in the city. It should not be inferred from this that the store does not carry high-price goods. It does, but even in its high-price goods the store aims to undersell all competitors.

The complaint division in the Bazaar handles the investigation and adjustment of all complaints and also the telephone orders. It is organized as shown in Form 37 on page 292.

Complaints come in to the store through three channels: the mail, the telephone, and personal visits. Some of the complaints made in person are at once adjusted by the floor man to whom they are made, without being referred to the complaint division. Other personal complaints are entered by the floor man on Form 38 (page 293) and then forwarded to a typist in the complaint division, where they are entered on Form 39 (page 294). Complaints coming in by mail are likewise copied to Form 39. Telephone complaints are taken down by the operator on

Form 40 (page 296), which is used throughout the work of the division exactly as Form 39 is used for the personal and the written complaints.

After the complaint has been entered on Form 39 or Form 40, it goes to the reader, who reads the statement of the complaint, and if it can easily be traced, looks the matter up herself. If it appears that the complaint will require considerable work in tracing, either in the complaint division or out in the store, the complaint is assigned to one of the tracers. Complaints from the same general locality are assigned to the same tracer insofar as it is possible in order that she may become familiar with the problems and the names in that locality. Also, assigning the complaints in this way eliminates the possibility of two people requiring the same delivery route sheet at the same time.



FORM No. 37. The Mayfair Bazaar—Organization Chart, Complaint Division

For tracing within the office of the complaint division, the tracer has access to triplicates of the sales checks, which are on file in the office and which bear the notation of the packer showing just what merchandise was packed. There are also kept on file reports from the delivery department showing what packages were not delivered because the customer was not at home, because of wrong address, and so on.

When Form 39 or Form 40 is given to a tracer, the stub at the top is detached and retained by the Head Tracer in a file as a control of the complaint. It is destroyed when the tracer makes her report and returns the form. The tracer visits the various

Complaint

DATE,____________192____ 6TH FLOOR

Name ____________________

Address ____________________

Town ____________________

DATE OF PURCHASE

		Details of Complaint
Dept.		
Amount		
Paid		
C. O. D.		
Charge Acct. Number		
Sales-clerk		
Sales-check		
Folio		
Trans.		
Deposit Number		
Deposit Amount		
Phone Number		
Repair		
O. B.		Signature ______ Time

FORM No. 38. The Mayfair Bazaar—Personal Complaint Form

No. K 9101

Name

Address

Time Received

Time Received

To Dept. No. | To Dept. No. | TRACER

Signature Date

Time Sent To Dept. | Time Returned

DEPT.________ANSWER HERE

Signature Date

Time Sent To Dept. | Time Returned

FORM No. 39. The Mayfair Bazaar—Final Complaint Form

departments in the store from which she wishes to get information, and when she has obtained it, writes on Form 39 or Form 40 a statement of the facts in the case. This statement goes directly to the head correspondent, who assigns it to one of the dictators. These dictators are college girls employed because the management believes that they will be able to write letters which are personal and tactful. The president, in his instruction to these dictators, tells them to be very careful to make the letters clear in every detail. The customer must be given no opportunity to misconstrue or doubt. All explanations must be truthful and to the point. Each letter, according to the plan, must begin by answering precisely the question which the customer asks. This is to be followed by a detailed explanation, and the letter is to close with a few courteous, well-chosen remarks which will build good will. On the basis of the statement furnished by the tracer one of these dictators writes an appropriate letter to the customer and sends a copy of the letter, together with the original letter and Form 39 or 40, to the filing division for filing. In case two names are mentioned in the complaint, as in the case of a sale which involved delivering the goods to one person and charging them to another, a cross-reference slip is placed in the file.

If the complaint was one made in person through a floor man, the floor man is sent a synopsis of the adjustment made.

The head tracer receives a daily report from each tracer showing

1. The date
2. Name of tracer
3. Number of letters received that day
4. Number of letters answered that day
5. Letters of day's mail answered
6. Letters in hands of departments
7. Previous complaints remaining unadjusted
8. Total complaints unadjusted

On Monday of each week the complaint division reports to the general manager and to the vice-president in charge of services the number of complaints remaining unadjusted, and upon the distribution of the complaints received among the various classes of complaint. The former report is called a

No.	Tally No. .... Prev. Letter .... Phone No. .... Date of Purchase	Date............................192. Telephone Complaint Name .... Address ....

Dept,		Sent to Dept.No.		Details of Complaint	Sent to Dept.No.	
Amount						
Paid				Nº 33351		
C.O.D.						
Charge Acct. Number						
Clerk						
Check						
Folio						
Trans.						
M.O.D. Number						
Deposit Number						
Phone Number						
Repair No.						
O. B. No.						
Prev. Complaint						

Time Rec'd	By	Complaint	Time Answered	By
		Details of answer on other Side		

FORM No. 40. The Mayfair Bazaar—Telephone Complaint Form

back list. Going to the management, for example, on Monday the 18th, this back list includes the reports of the tracers described previously for the week ending on Tuesday night, the 12th; that is, the preceding Tuesday night. This report of unadjusted complaints shows the number which came in by mail, the number which were made in person or by the telephone combined, and the total. This total is analyzed by the days on which the complaint was received. This report also shows the total number of complaints received during the week ending the 16th; that is, up to the preceding Saturday night. A sample back list follows:

Back List, July 18, 1921

Back List	Letters	326	July 6	90
	Other	202	7	73
	Total	528	8	109
			9	50
			10	171
			11	35
				528

Total complaints received week ending July 16—2,738.

The other weekly report to the management, that is, the one showing the number of complaints received classified by reasons for the complaints, is made on a large form having a column for each reason for complaint, and a line for each department and total for the store. The following reasons for complaint are distinguished:

1. Non-delivery
2. Delayed delivery
3. Broken promise
4. Wrong merchandise
5. Damaged merchandise
6. Faults
7. Poor quality of merchandise
8. Poor work on alteration or repair
9. Customer claims free delivery

   The store delivers parcels free within the Chicago city limits, and certain specified adjacent territories. Deliveries outside these specified limits are supposed to be paid for by the customer.
10. Dissatisfied with adjustment
11. Customer claims refund

12. C. O. D. customer's claim charge
13. Dissatisfied with price
14. Wrong charge on sales slip
15. Complaints against drivers
16. Complaints not answered
17. Miscellaneous charge complaints
18. Service in general
19. Unadjusted claims by customers
20. No record

As is indicated in the form, all telephone orders are received by the operators at the telephone desk in the complaint division. These orders are entered on a regular order form showing the date, the time received, the kind of sale, and the complete address of the customer including telephone number. All items are entered on one order blank regardless of the number of departments represented by these items. At the bottom of the order is provided a space for the date, the number of the sales check folio, the number of the sales check, and the salesperson's number. There is also a space for entering the time at which the order was filled, and by whom the order was filled. All telephone orders, after they are entered on the order blank by the operator, are sent to the head operator, who enters them on a shopper's tally, which is merely a control taken in duplicate giving a list of the orders with which the shopper is charged, the time, and the floors which she need visit. There is space provided on the tally for remarks in case the order is not completely filled. This shopper goes directly to the department and makes the purchase as if she were the customer. The goods are sent through to the delivery room and pass out of the store in normal procedure. The shopper returns the order and her tally to the head operator.

Questions

1. Should the telephone order section be included in the complaint division?
2. Is there adequate control over the telephone orders?
3. Do any changes appear to be desirable in the organization of the complaint division?

C. PLANT LOCATION AND EQUIPMENT

1. LOCATION PROBLEMS

Organization 32

Wilbur Rogers—Location and Layout of a Hardware Store

Wilbur Rogers entered the hardware business in Boston in 1881, opening a store at the corner of Washington and Boylston Streets. Washington Street is one of the main arteries through the shopping district, and much of Mr. Rogers' trade was in tools and household goods, which were sold on a cash basis. In the next few years, rents advanced rapidly in the Washington Street district, and, as Mr. Rogers expresses it, he was "working for the landlord nine months out of the year." Since most of the merchandise in the regular hardware lines was bought by men, he decided that he might carry on his business just as successfully in builders' hardware, which he usually sold on credit, and he decided that he could develop this trade to his advantage. Therefore, in 1893, he moved his store to its present location on Eliot Street, near the corner of Washington, outside the shopping district. In this location Mr. Rogers' sales gradually increased, and the character of his business changed until in 1920 from 60% to 70% of his total sales were made on credit.

The problem that Mr. Rogers faced in 1920 was as follows:

The store is divided into the following departments:

- Gardeners' tools
- Machinists', masons' and carpenters' tools
- Plumbers' hardware
- Theatrical stage hardware
- Kitchen and galvanized ware
- Oils and paints
- Builders' hardware
- Specialties

One man is placed at the head of each department to keep the stock in order and to make all purchases for his department. Each man who is in charge of a single department is also expected to wait on customers in other parts of the store when opportunity offers.

The Rogers store occupies a building owned by Mr. Rogers, which has approximately 24 feet frontage on Eliot Street and which extends back about 95 feet. The third and fourth floors,

however, extend back only about half this distance. At present the store is laid out as follows:

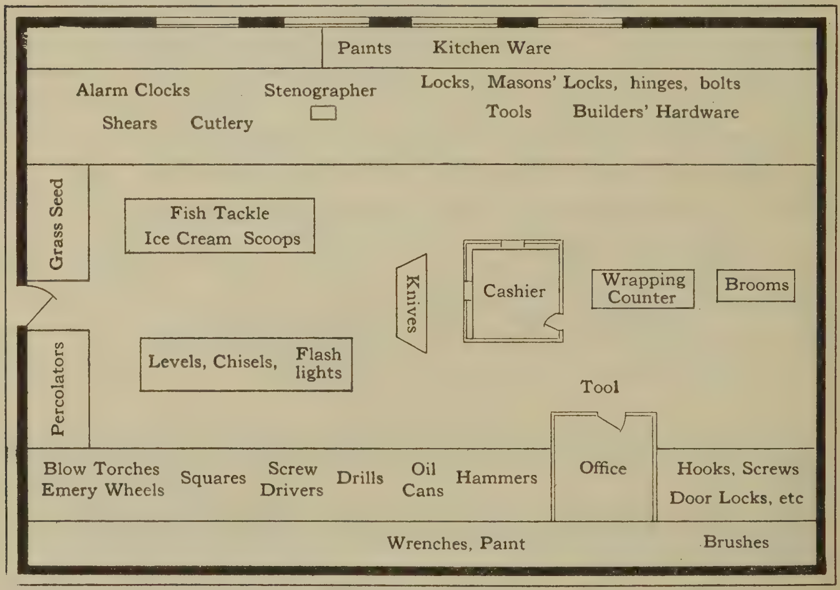
4th floor: Storage for goods such as garden tools, ash cans, lawn mowers, screens, window display fixtures, garden sets, sleds, skates, and snow shovels, when they are out of season.

3rd floor: Galvanized pails, garbage pails, oil cans, and some kinds of builders' supplies.

2nd floor: Theatrical hardware lines, such as scenery props, double blocks, hoisting gear for stage curtains, and sand bags. Oil supplies, stock of carpenters' and machinists' tools, conductor pipe, garden hose, and sponges are also kept on this floor.

1st floor: Display and selling stocks of machinists', masons', and carpenters' tools, electrical goods, kitchenware, cutlery, fishing tackle, alarm clocks, padlocks, jack-knives, paint samples, door locks, hinges, window catches, and other builders' hardware.

Basement: Paints, nails and spikes, rope and all heavy merchandise. Oils are kept in a special fire-proof room.



FORM No. 41. Wilbur Rogers—Chart of First Floor Layout

The first floor is laid out according to the diagram shown at the bottom of page 300.

It has been proposed to open up a new thoroughfare for automobile and pedestrian traffic which is to be known as Stuart Street Extension. According to this plan Stuart Street will be widened and extended from Huntington Avenue through to Tremont Street. From there on the thoroughfare will follow Eliot and Kneeland Streets, toward the South Station. The widening and extension of Stuart Street will cause the destruction of a number of old houses and store buildings. These structures have already been appraised by the City of Boston. Eliot Street and Kneeland Street will be widened by adding 20 feet from the properties on the south side of the streets.

When the Stuart Street Extension has been put through, this district will be as desirable for retail store trade as that along Washington Street. Rents will undoubtedly increase and a better class of buildings will be erected. Since several Boston department stores and specialty shops are reported to have bought property along the proposed thoroughfare, there is a possibility that this section will become a new shopping district.

Questions

1. When this Stuart Street Extension has been completed, should the Rogers store remain in its present location?
2. If so, what change should be made in its layout?
3. Should the character of the merchandise carried be changed?

Organization 33

H. Wardman Grays—Shoe Store Location

Washington, Illinois, is a city of 15,000 inhabitants, situated in the center of an old, well-settled farming district. The farmers, who specialize in small grains and corn, are largely well-to-do and nearly all own automobiles of the Buick class or better.

Ansell, Illinois, a city of 10,000 inhabitants, is adjacent to Washington on the west across a small river.

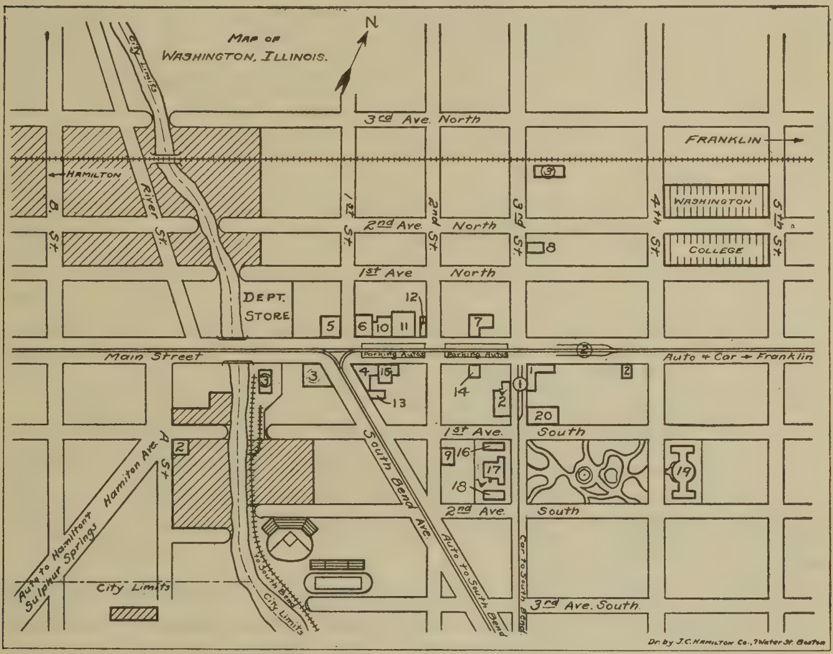
These two towns are served by two railroads and two interurban lines. One railroad passes directly through both Ansell and Washington, running between Hamilton, 60 miles to the west, and Franklin, 25 miles to the east. The other railroad has a stub-end terminal in Washington and runs southward along the river to South Bend, a distance of about 30 miles. The interurbans connect Washington with Franklin and South Bend. The Franklin line operates cars every 30 minutes, and the South Bend lines maintain hourly service. On both the steam railroads there are two trains each way each day.

Excellent hard roads connect Washington with Franklin on the east, South Bend on the south, and Sulphur Springs on the west. These roads connect with through routes and are much used by tourist traffic during the summer. Tourists passing through Washington take one or two routes as a rule. One group comes in from South Bend on South Bend Avenue, crosses the river at Main Street, and goes west out Hamilton Avenue toward Sulphur Springs. The other stream of traffic comes east from Franklin, crosses the Main Street bridge, and passes out toward Sulphur Springs along Hamilton Avenue,

Sulphur Springs is a health resort 15 miles to the west. Two large hotels have been erected there, and under the leadership of the hotels the community has laid out two golf courses, and built several excellent tennis courts and a splendid bathing pool. The Springs is the resort center for the country within a radius of 120 miles.

The city of Washington is largely a college and residential town. Its population is made up mostly of Protestant people who came into the community years ago as pioneers and have now retired from farming. There are a few factories along the

river, as indicated on the map. Ansell, on the other hand, is a manufacturing town almost exclusively. Its population is more than half-foreign, and largely Roman Catholic. Labor unions are fairly strong in Ansell, but in Washington they never have gained much headway. Washington College is a coeducational school maintained by the Methodist Episcopal Church. Its student body numbers from 500 to 700 each year, and is drawn principally from the prosperous farms and the small towns within 200 miles of Washington.



FORM No. 42. Map of Washington

The town, as shown by the above map, is essentially a one-street town. Practically all the retail stores, offices, restaurants, and ice cream stores are along Main Street. Stores continue along Main Street in Ansell from the river to B Street, but they are of a somewhat lower grade. The corner of South Bend Avenue, First Street, and Main Street is clearly the busiest corner in this city. In addition to the automobile and pedestrian traffic lines joining or crossing here, there is the junction of the two local street car lines. Some

small stores straggle out from Main Street along First, Second and Third Streets. Main Street has trees along the north side of the street from the river east to Second Street. The sidewalk on the north side of Main Street from the river to Fourth Street is about twice as wide as the sidewalks on the south side of the street. Both sides of Main Street, from B Street in Ansell to Fourth Street in Washington, are lighted by clusters of electric lamps on art metal standards.

The factory districts of both Ansell and Washington are shown on the map by light shading. The district in Ansell between First Avenue North and Main Street is largely given over to shops and retail establishments. In Washington the region south of Main Street, north of Second Avenue, and west of Third Street is occupied by shops, garages, and retail establishments; south of Second Avenue are residences, some factory workers living between South Bend Avenue and the river. South of Main Street, east of Third Street, and especially west of Fourth Street and south of Second Avenue South, is a splendid residential district. North of Main Street, between First Avenue North and the railroad, as far east as Third Street, is a lower-middle class district. East of Third Street, residences are of distinctly better type, belonging largely to retired farmers.

Mr. H. Wardman Grays has decided to open a shoe store in Washington. His store will try to appeal to the college students, to the well-to-do residents, and to the farmers from the surrounding country. The shoes carried will be of a good grade with some style appeal.

Mr. Grays hopes to get some business from the Sulphur Springs people and from the guests who spend from four to six weeks during the summer at the hotels there. Washington is a normal shopping point for the Sulphur Springs population, and it is much nearer than Franklin and Hamilton.

Very few shoppers come into Washington by steam roads. The out-of-town people usually come in on the two interurban lines or by motor. A large amount of merchandise is trucked to Washington by motor from Franklin and Hamilton.

Farmers do their shopping principally in the evening before going to the movies. The wives and daughters of farmers are quite likely to motor into town during the afternoon. The local street cars stop at the far side of all street intersections.

Automobiles may not park on Main Street between the bridge and Fourth Street in Washington except in the parking spaces set aside.

Mr. Grays wishes to secure a location where the windows will be well lighted throughout the day, and where they will be well set off by artificial light in the evening, since he thinks that the windows are a very important factor in making sales in a shoe store.

Questions

1. What factors ought Mr. Grays to consider in deciding upon location in Washington?
2. Where should he erect his store?

Organization 34

Homer Drug Company—Expansion of Unit Store

Cranton is a manufacturing town of 80,000 inhabitants located about 30 miles from New Haven. Within a radius of 8 miles from Cranton are 7 towns of a population ranging from 10,000 to 35,000. Then within a radius of 8 to 15 miles are 9 other towns of approximately the same size. They are primarily manufacturing towns, in several of which large industrial enterprises are located, the employees of these plants constituting a large proportion of the inhabitants. A substantial number of the people living in Cranton and surrounding districts commute to New Haven every day. These towns are thickly sprinkled with grocery and drug chains. There is excellent railroad and interurban street car service between Cranton and places within a 15-mile radius.

The railroad intersects the town. The site of the station is within a 5-minute walk of the southern boundary line. Practically all the important retail stores are located on Windsor Street, which crosses the railroad at right angles two blocks

north of the station. The railroad goes underground through a short tunnel just before Windsor Street is reached.

The four corner locations at the point where Windsor Street passes over the railroad tunnel are considered the best retail locations in Cranton. One of these is occupied by the Homer Drug Company. The others are tied up by long leases to furnishing houses. The Homer Drug Company has for the last five years been doing a business close to $150,000. Beyond this point, the volume of sales cannot be expanded, because the amount of floor space is limited and cannot be increased by additions from adjacent buildings, these buildings being occupied by stores which need all the space they have.

The Homer Drug Company runs a branch in a town three miles away. This branch has not yielded a satisfactory profit. Sales for the last year were $34,872. There has been a large turnover of branch store managers.

Chain store competition has become increasingly severe. The second and fourth stores from the Homer Drug Company on Windsor Street are occupied by large chains. Across the street in the store adjacent to the corner building is another chain drug store. The manager of the Homer Drug Company estimates that one of these stores does a business of $175,000 a year and that the other two are in the vicinity of $100,000. Competing chain stores are able to undersell the Homer Drug Company on many of the lines carried. The Homer Company, however, gets a large soda and cigar trade from people going to and from the station and also from the crowds that gather at the central interurban car stop, which is just outside the door. The leading physicians of the town prefer to do business at the Homer store. The people from the well-to-do residential districts, where there are municipal restrictions against stores, likewise trade there.

The other drug stores of Cranton are small, either situated along Windsor Street or in the large immigrant residential district near the factories where the immigrants work. None of the chains have been interested in any Cranton site except close to the main corner of Windsor Street.

The proprietor of the Homer Drug Company believes that he could do a business of $200,000 or over if his store space permitted. Since this is impossible, he is considering the estab-

lishment of three or four branches, either in Cranton or in one of the surrounding towns.

Question

What factors must the proprietor of this store consider in choosing locations and in taking leases?

Organization 35

When to Organize a New Branch in a Chain

In making a study of the growth of chain store organizations, information was secured from the managers of three grocery chains. All the managers attributed the success of the chain grocery companies to their ability to buy merchandise cheaply, to operate their stores at a low rate of expense, and to expand their organizations at the proper time. When asked how their companies determined when to expand, the managers did not give the same reasons.

The manager of one of the companies stated that expansion depended only upon the possibility of securing sufficient capital. As soon as his company obtained a surplus large enough to purchase the equipment and stock necessary, and to pay the operating expenses of a new store for the first three months, the treasurer was instructed to lease a new store. The treasurer then consulted with his real estate agents and attempted to secure a building which corresponded as closely as possible in size, distance from the central warehouse, and desirability of the surrounding locality and district, to the stores already in operation. As soon as such a lease was available, a new store was added to the chain. The managers of the other two chains stated that their companies always added new stores to the chain whenever they could obtain a lease on a good building in a desirable locality at a reasonable figure. They stated that their companies had extra

equipment on hand at all times sufficient to set up from 12 to 15 additional stores. In case the capital was not available at the time a desirable lease could be secured, the company borrowed from the bank. To make sure that no openings in suitable localities were overlooked, these companies maintained real estate departments which kept on file records of all of the desirable locations in the towns and cities of New England, the condition of the buildings, their probable rents, and when possible, the number of years that the present leases still had to run.

Question

What other method might be used in determining when to organize new stores in a grocery chain?

Organization 36

J. H. Hawkins Company—Location

The J. H. Hawkins Company conducts a large grocery and general market business in an eastern manufacturing city of 99,000 inhabitants. The Hawkins Company has two stores in this city, and their combined sales in 1920 were nearly $5,000,000. The goods sold include groceries, meats, fish, vegetables, fruit, bakery goods, delicatessen goods, and kitchenware. This business is run entirely on a cash basis. A charge of 10 cents is made for each delivery. This business, founded 30 years ago, has expanded gradually to its present size, and through its reputation for fair dealing the Hawkins Company has gained an enormous amount of good will. Its employees are instructed to act on the assumption that the customer is always right. If a woman accidentally drops a bag of sugar and spills it before she gets outside the store building, she is given another bag free. Customers who lose their pocketbooks or have their pockets picked while in either of the stores of this company can receive the full amount of their losses by calling at the office. This reputation

for fair dealing is probably one of the most important assets of this company.

In the grocery department the Hawkins Company meets prices in all chain grocery stores and occasionally undersells them. This department, consequently, shows no profit, though the business as a whole shows a net profit of about 3%.

The Hawkins Company endeavors to treat its employees with the utmost fairness; hours of labor are shorter than in most retail grocery stores and wages are higher. The city in which these two stores are located is a stronghold of union labor. There have been several attempts to unionize some of the employees of the Hawkins Company. These attempts have usually been directed at the company's bakeries. Nevertheless, the Hawkins Company has steadfastly maintained a hostile attitude toward any attempts to unionize its employees. This attitude has resulted in one or two abortive attempts on the part of labor unions to boycott the stores. Because of the company's reputation for fair dealing, however, it is not apparent that such attempts have resulted in any falling off in sales.

The city in which the Hawkins Company is located is about 15 miles from the most important market and distributing point in that section of the country. Most of the Hawkins Company's purchases are made in this market, and a considerable volume of merchandise, especially the more perishable goods, is hauled to the store daily by trucks. The general manager usually gets up at 5 o'clock every morning and goes into the large city markets personally to superintend the buying.

Recently the owners of this company have begun to realize that the company has just about reached its limit in volume of sales in its present stores. It has expanded the radius of deliveries to 21 miles, and the volume of telephone order business has reached such proportions that 12 telephone operators are required to handle it. It is felt that nothing would be gained by establishing another local branch, as the volume of trade of the two stores is as great as reasonably might be expected. Therefore, the executives of the Hawkins Company have decided to establish another store in a manufacturing town or city somewhere within a radius of 50 or 60 miles of the present stores. There are a number of manufacturing cities in this territory that are much like the city in which the Hawkins stores are now located.

Questions

1. What points should the Hawkins Company consider in making a market analysis of the various towns and cities to decide on the one best suited for the new store?

2. What factors should be considered in deciding on a location in the town or city?

Organization 37

Rockwell Company—Organization—Location and Layout

The Rockwell Company operates a chain of nine dry goods stores located in the cities of three New England states. These stores vary in size, the smallest having a yearly sales volume of \$50,000, and the largest a yearly sales volume of over \$400,000. The central buying, accounting, and administration offices are located in Boston.

This firm has made a practice of keeping on file a record of all the dry goods stores in New England which would be suitable for addition to its chain when the time for expansion arrives. Whenever possible, the Rockwell Company does not open a new store, but instead purchases and reorganizes a store that has already been in operation for a number of years. The company then tries to capitalize on the good will of the old proprietor, if he has developed any such asset, and in some instances places beneath its sign the notice that it is a successor to the former owner. This notice is not removed until the Rockwell Company feels that it has become established firmly enough in its new section to operate under the name of the Rockwell Company alone.

At present the management of the Rockwell Company is undecided whether or not to accept the offer of a merchant who wishes to sell his store in order to retire from business. Although this store can be bought for a low figure, most of the

inhabitants of the town are foreigners who would demand a different grade of goods from that handled by the other Rockwell stores. Because of the shifting foreign population, moreover, the losses from shoplifting would probably be greater in this store than in the other stores of the chain, but there is little doubt that a large volume of business could be built up quickly.

Another problem confronting the company is the question of the advisability of building a new store in an adjoining suburb. In this particular town it is impossible to buy out one of the established merchants except at a high price. A desirable site for the building of a chain store has been offered to the company at a moderate figure. This suburb is growing rapidly, but the inhabitants depend almost entirely on the shoe industry for a livelihood. The managers of the store are undecided whether to break away from their old policy of taking over only stores already in operation, and they are also uncertain as to the advisability of locating in a town which has but one industry; its other stores, however, are not dependent on this industry.

At present the Rockwell Company is incorporated under the laws of the Commonwealth of Massachusetts. The managers are considering, however, incorporating each store individually in the state in which it happens to be located, because of the losses entailed through the possible failure of a store in a neighborhood which changed the character of its population, due to the moving away of one of its largest industries. Furthermore, to incorporate each store would make it less difficult to operate a plan of stock partnership upon which the company has decided. By this plan each manager will own stock in his own store and thus his profits will depend upon the success of his management rather than upon the success of the chain as a whole. In certain instances, moreover, individual incorporation in the different states will lower susbtantially the amount of taxes paid.

Each store operated by the Rockwell Company is painted the same color in order to facilitate identification by the public. At present, there is no standard layout in each store, but every store manager is instructed to make the best of his situation and to secure the most business possible for the size and location of his store. An attempt has been made, however, to standardize departments for the purpose of making comparisons between the same departments in the different stores. For

example, No. 1 store sold more corsets during the past year than the No. 2 store, although the total sales for the latter store were more than double those of No. 1 store. If the same departmentalization were not enforced, it would be impossible to compare these two stores and to realize that the larger store was not making the best of its opportunities. No attempt has been made to standardize the equipment of the stores except to purchase counters of the same size which enable the company to expand or contract any particular store and make efficient use of all its equipment.

At present all merchandise, supplies, and equipment are purchased by the central office of the Rockwell Company and then distributed to the different stores. Just before a store is to be expanded, prices are cut on all merchandise in an attempt to build up a larger sales volume which will take care of the increased size of the store.

It has always been the policy of this company to operate on as low a mark-up as possible and still make a reasonable amount of profit. This firm would rather sell \$250,000 worth of merchandise at a profit of 8% than \$200,000 worth of goods at a profit of 10%, even though more storage space and more employees are required in handling the larger volume. This policy is followed because the company hopes to expand its business and depends upon volume to make possible this growth.

The managers of the Rockwell Company believe that the relation of selling and buying is more important in a chain than in a department store, since in the former organization the buyer does not have charge of selling the merchandise, and therefore has no basis upon which to judge local conditions except by the records furnished him by the individual stores. They maintain, therefore, that the chain store has an advantage over the department store in that it can transfer excess stocks from one store to another. This ability to transfer merchandise gives the Rockwell Company an opportunity to dispose of odd styles and slow-moving merchandise, for with stores located in numerous places the company is almost sure to find one group of customers to whom this merchandise will appeal. Although this policy increases turnover, the transferring of merchandise from one store to another adds to its cost because of the high rates for freight, express, and parcel-post. Furthermore, the manager

of the store selling these goods maintains that since he is disposing of broken lots of merchandise at the close of the season as a favor to another manager, he should be given an opportunity to show a profit on this merchandise. Therefore, complicated adjustments must be made between the stores whenever merchandise is transferred.

It has been suggested by some of the store managers that since they are in charge of selling the merchandise they are also in better position to know what their customers desire. Therefore, they propose that instead of having the goods purchased centrally by a buyer who has but little knowledge of local conditions, the Rockwell Company should make arrangements to secure a quantity discount from manufacturers on the total amount of business received and allow the individual store managers to make the actual purchases as the merchandise is needed. This would enable each buyer to select the kind of merchandise his store requires.

Another difficulty in the operation of a centralized buying office is that the buyer is responsible for the gross profit, because he decides on the amount of mark-up. The prices of the merchandise must be the same in all the stores of a chain or customers who shop by automobile in several different towns will object to the lack of uniformity. The buyers are paid a percentage of the total profit of the chain, but the manager of each store is in control of the selling of the merchandise and is held accountable for all stock shortages. The store manager is also accountable for all merchandise received, and for the amount of money paid for heat, light, wrapping supplies, and the wages of the sales force. If a store manager is inefficient and his store shows a loss, the salary of the buyer and the net profits of the company are affected accordingly, although the buyer is not in any way responsible for the loss. At present the company is attempting to find a solution to this problem so that the buyer can be paid a percentage of the profit of the business, without receiving a cut in his salary because of a loss over which he has no control.

In the operation of its stores, the managers of the Rockwell Company have had difficulty in securing good salespeople. Since the employees usually live in the locality in which the store is situated and are well acquainted with many of the customers,

they are loath to make suggestions in selling merchandise and instead tend to become mere order-takers. At present most of the salespeople are married women who live in the vicinity of the store and who spend but part of their time in the store.

In advertising, the chain attempts to avoid extravagant statements. Managers are allowed a specified percentage of net sales for advertising purposes and are instructed to avoid any unnecessary story, headings, or borders. They are also instructed that they must not use large cuts even if these are furnished free by manufacturers. While the chain as a whole does not use the trading-stamp system, this policy has been continued in certain stores where the trading-stamp habit has been impressed on the minds of the customers by the company's predecessor. Since these trading stamps cost about 2% of the total net sales of the store, the directors believe that if they can abolish the system a substantial saving can be made. In one store where the experiment was tried, over $4,000 was saved through the abolition of the trading stamp system. In several of the stores that have been using trading stamps the company thinks it would be an advantage to substitute a scheme of its own. Since trading stamps are given by other stores in the same locality, the company doubts whether the stamps have any particular pulling power for its stores. To remedy the situation the store managers have suggested that the firm should offer a cash prize of $1 to each customer who saves $25 worth of the Rockwell Company sales slips. While this scheme appears to require an expenditure of 4% of the total net sales, it is almost certain that a large number of customers will not save these slips and that those who do will not secure $25 worth. It is thought that this system will induce people to pass by stores where trading stamps are given in order to trade with the Rockwell Company.

In all cases the salary of the manager must be in keeping with the sales volume of his store. For example, when a certain store recently failed to pay expenses the company transferred the $50 manager who was in charge of this branch and replaced him with a $30 man. Although the sales fell off slightly, the company saved $20 a week in the manager's salary alone, and so by reducing expenses it was able to make this store show a slight profit. The company believes in the adaptation of lessened

expenses to lessened sales, and it is considering other means of cutting down expenses besides that of reducing the managers' salaries.

The executives of the Rockwell Company are convinced that they have had a decided advantage over the department store form of organization because they have not required a high-priced staff of advertising managers, department heads, floor superintendents, and other officials. The manager of each store has filled all of these positions himself. Recently, however, the company has secured the services of a window trimmer, who trims the windows of the various stores whenever a special display is desired.

Since the company is now operating nine stores, the managers are considering the advisability of employing a few specialists to handle the layout, advertising, window trimming, and other problems for each store in the chain. They are uncertain, however, as to the advisability of such a step, since they have been told that in department stores where the functions are subdivided so that only a particular line of work is performed by one man, because of the uneven flow of work, at times, certain men may be left with nothing to do. In the chain of stores where so many functions are performed by the store managers, the company is not faced with the situation of paying a salary to a man who is sometimes idle.

Questions

1. Should the Rockwell Company purchase the store located in the town with a large foreign population?

2. Would it be advisable for each store to carry exactly the same lines of merchandise?

3. Should the company build new stores of its own or purchase stores already in operation?

4. What are the advantages and disadvantages of incorporating each store individually?

5. Would it be advisable to standardize the equipment and layout of all the stores?

6. Should a change be made in the present buying policy?

7. What steps should the firm take to secure more efficient salespeople?

8. Should trading stamps be abolished?

9. If so, should the company establish a premium system of its own?

10. Would it be advisable for the Rockwell Company to build up a staff of window trimmers, copy writers, and other specialists?

Organization 38

The Rockport Drug Company—Selecting Location with Reference to Kind of Trade Desired

The Rockport Drug Company is a drug manufacturing concern which operates a large number of retail stores for the distribution of products of its own manufacture as well as standard brands manufactured by other firms. The stores are departmentized and, as a rule, have candy, soda, cigar, drug and medicine, hospital supplies, and prescription departments.

During 1917, 1918, and 1919 the Rockport Drug Company was expanding its retail chain rapidly, and by June, 1920, it had 29 stores in one of the large eastern cities. The depression which began in the summer of 1920 and continued through the spring of 1921 forced the company to curtail its plans for further expansion. It was decided not to break into new territory and to open but very few new stores in the territory which had already been developed. In the city mentioned, however, it was desired to open one more store, and for this store two locations were available.

One of these locations was in the middle of a block on the opposite side of the street from two medium-class department stores. In the same block, near the prospective location, were small specialty shops, two shoe stores, and a millinery estab-

lishment. There was no other drug store in that block. The better class department store shopping district was a block up the street from the prospective location, but a considerable volume of pedestrian traffic from this district passed this location in going to and from a park promenade.

The second location was in the corner of a new office building located in the heart of the theater district and across the street from one of the best hotels of the city. This hotel was patronized to a considerable extent by out-of-town business men and was unusually popular with tourists and with women traveling alone. A number of well-to-do people made the hotel their permanent home when in the city. Under this new office building was a subway station at the junction of two main lines, and through the lobby of the building there was provided an entrance to and exit from the subway station. The proposed location for the drug store had two entrances, one to the street at the corner of the building, and one into the lobby of the building inside. Near this office building, in addition to the theaters and the hotel mentioned, were a number of exclusive women's specialty shops, several of the best music stores in the city, and some haberdasheries.

It was customary to sell sandwiches, pie, and cakes at the soda fountain in all the drug stores of the chain, and stores which had been located in or near office districts had done a large noon-hour lunch business.

The rent in the second location was slightly higher than in the first.

Question

What factors should the Rockport Drug Company have considered in choosing between the two locations?

Organization 39

The Morton Furniture Company—Site for Furniture Store

The Morton Furniture Company, of Boston, occupies a small three-story building on Canal Street. In 1890 this company, which had been in business for five years on Fulton Street—then the center of the furniture trade—moved to the second story of the Canal Street building, which it still occupies. Since 1890, the Morton Company's annual sales have grown from less than $150,000 to over $1,500,000. By 1910, the size of this business warranted taking over the whole store. During these years the furniture trade moved bodily to Canal Street. There remain only two or three furniture stores on Fulton Street, which in the meanwhile has been invaded by the produce markets and wholesale grocers.

At present the Canal Street houses generally deal in less expensive furniture than that carried by the department stores. Their chief selling arguments are low rents, inexpensive store fixtures, small advertising costs, and proximity to the wholesale and manufacturing district, which is located around Friend and Portland Streets, running parallel with Canal. It is commonly estimated that rents on Canal Street are one-half of what they are in the department store district. There is a saving, furthermore, resulting from the fact that manufacturers and wholesalers are nearby, enabling the retailer to get along on small stocks. In certain lines deliveries are even made from the warehouses of manufacturers. Another advantage of Canal Street for the furniture trade is the stream of pedestrians passing to and from the North Station, which is at one end of the street, and the Haymarket Square subway station at the other. Many residents in northern suburbs and nearby towns who have places of business within walking distance from the Station pass along Canal Street twice a day. Furthermore, after 1890, this street became identified in the minds of the buying public as the traditional furniture district of the city.

In 1913 the largest and oldest furniture store in Boston moved from Canal Street to Park Square. At that time the Park Square section was not a retail district. It had been the site of the old Albany Station and train yards.

In 1913, there were automobile agencies and garages adjacent to the square; and the Cort Theatre, now the Park Square Theatre, at the center of the Square had been built. Most of the district running west of Park Square, parallel with Boylston Street, was a waste. The erection of this furniture store was the first attempt at reclaiming the land. Since then two private garages have been erected nearby and also the John Hancock Building, a large office structure.

Stuart Street runs parallel with Boylston Street into Park Square. This portion of Boylston is closely lined with small shops—caterers, modistes, restaurants, optical stores, book stores, antique furniture shops, and others. Since work was started on the Arlington Street subway station, several high-grade specialty shops have moved to this part of Boylston Street.

Stuart Street is an unknown problem. Just what sort of stores and offices will be erected it is impossible to tell, the more so because there is a project on foot to extend it through to the South Station. Rumors are current that department stores and chain stores have purchased real estate along this projected thoroughfare to protect themselves against a possible shift in the retail district.

The "Stuart Street extension," if realized, will run along Eliot Street, and direct to the South Station, mainly through a district of low rentals, old building tenements, and low-priced stores.

The Morton Furniture Company is considering a location along Stuart Street. The members of the firm recognize that there are some disadvantages in their Canal Street site, since they sell more expensive furniture than the other Canal Street stores. This furniture cannot be displayed adequately in their present store, the construction of which is old-fashioned and cluttered up with partitions. Furthermore, though convenient for people commuting by means of the North Station or the subway at Haymarket Square, it is out of the way for well-to-do residents of the southern and western suburbs and of other residential districts in Boston. Moreover, on both sides of Canal Street are immigrant residential districts, pawn-shops, second-hand stores, as well as manufacturing plant and wholesale offices. Heavy teaming and crooked streets make access to the Morton store difficult both for pedestrians and automobiles.

The Company, however, has been reluctant to move. Building a store on Stuart Street would be a severe strain on its financial resources, not only for the building itself, but also for the necessary advertising. The only other location that presents itself as a possibility is the department store and specialty shop district southwest of the Public Garden along Tremont and Winter Streets. The rents here are very high, higher than they would be near Stuart Street and double those along Canal Street. Moreover, most of the choice locations in this section are tied up by long leases. This possibility has, therefore, been dismissed. Members of the firm, furthermore, have voted against a site just on the outskirts of the department store section, which would be hardly more attractive than Canal Street.

Question

What factors should be considered by the Morton Furniture Company in deciding whether to move to Stuart Street?

Organization 40

Brockhurst Company—Location Policy for Chain Grocery Stores

The Brockhurst Company operates 250 retail grocery stores in greater Boston. The weekly sales in each of these stores range from $400 to $1,800. The stores carry groceries, bread, staple fruit, potatoes, and onions, but no meats, bakery goods, or green vegetables. All accounting and practically all buying is done at the executive offices located in the company's warehouse. The company also maintains at the warehouse an employment office, which supervises the hiring, training, discharge, and promotion of the employees.

The stores are divided into groups of from 15 to 20. In charge of each group is a superintendent who visits every store in his group daily. A manager is in charge of each store and in the

smaller stores he is the sole employee. If the sales volume seems to justify it, he may employ a boy on one or more afternoons a week, or he may have a full-time assistant.

This manager does no buying except of small items which are delivered directly, such as yeast, cookies, crackers, and biscuits. Practically all goods are supplied on request from the warehouse, regular deliveries being made weekly on schedule by motor trucks.

In the region of greater Boston, there are a large number of neighborhood trading centers. Some of these are old and well established like Central Square and Harvard Square in Cambridge, Coolidge Corner in Brookline, and the Dudley Street Station district in Roxbury. Such centers are trading centers for a population of up to 50,000, and usually contain from one to three theaters, one or two small department stores, several shoe stores, up to five drug stores, five or six candy and ice cream shops, from two to five bakeries, and eight or ten grocery stores.

In addition to these older "squares" there have been developed during the past five years a large number of smaller trading centers, some at car stops or corners adjacent to or in middle-class residential districts, others in the midst of districts which are almost entirely made up of apartment houses. This tendency has been general over the entire metropolitan district. These smaller trading centers are sources of supply for convenience goods, and usually contain one to two unit grocery stores, from one to five chain grocery stores, one or more drug stores, an ice cream shop, and a variety store. In addition, there may be a moving-picture theater.

In selecting its store locations the Brockhurst Company has followed one of two general principles. It either has located near from one to four other chain stores in one of the squares or in one of the newer neighborhood centers, or it has selected a location in a residential section where there were no competing stores. In following the former policy it was felt that the company was practically certain to get a good location and was spared the cost of an elaborate investigation.

Questions

1. In which of the two types of locations would a chain grocery store operate to the best advantage?

2. Is it sound policy for the company to locate near from one to four other chain grocery stores?

3. Is it sound policy for the company to enter new residential sections where there are no competing grocery stores?

4. Should the company establish a department to investigate proposed locations?

Organization 41

Enfield Store—Location

In a number of large cities businesses of similar types have congregated to such an extent that there are clearly defined financial, wholesale, and shopping districts. It is not unusual to find that the hardware, furniture, or automobile business has an accepted section in the city. The shopping district, with its department stores, specialty stores, and exclusive shops, is often found established along the principal arteries of the city and is frequently at some distance from either the wholesale, hardware, or furniture sections.

The Enfield Company was engaged during the war in the manufacture of munitions for the United States and its allies. A huge plant was built for the carrying on of this work, and an organization developed which required the services of over 16,000 employees. After the Armistice was signed, the management was faced with the problem of utilizing this plant full of expensive equipment and this organization of skilled workers which had been developed during the war. After a careful study of the situation, it was decided to engage in the manufacture of firearms, hunting and fishing equipment, and sporting goods for popular use. Also various novelties, such as thermos bottles and pitchers, collapsible stoves, and automobile kit utensils were to be manufactured and some aluminum ware and utensils for household use.

In order to dispose of its products the Enfield Company decided to lease and operate a number of retail stores. Whenever possible, a store was not to be located in the established hardware districts of a city, but in the best location available in the shopping district. For example, in one city the Enfield Company has leased a new building on the main boulevard in the most fashionable shopping district. On one side of the Enfield store is a specialty shop carrying women's dresses and suits, while on the other side is one of the most exclusive jewelry stores in the city. In another city the Enfield Company selected a location within a block of the shopping center. This store is located on a corner next to a large department store. Across the street is another department store and a women's specialty shop.

It was the intention of the Enfield Company that these stores should present a distinct shopping appeal and actually compete with department stores and specialty shops. Attractive fixtures and up-to-date equipment were secured in order that the stores would compare favorably with those which surround them.

Question

What are the advantages and disadvantages of such a policy?

Organization 42

Commonwealth Grocery Company—Unfair Competition

The Commonwealth Grocery Company, operating a chain of over 200 grocery stores in New England, wished to place a store in a city of 20,000 in eastern Massachusetts. The city selected was essentially a residential one, with practically no factory population. There were 3 large-unit grocery stores in the city, 19 smaller neighborhood grocery stores, and 6 grocery stores of competing chains. The Commonwealth Grocery Company had no store in the city, but hoped to locate other stores there in the future.

One of the choicest grocery store locations in the city was in a 3-story building situated conveniently on the square in the center of the city. This location was occupied by a unit grocery store belonging to Mr. J. B. Brown. A dry goods store occupied the other half of the first floor. Mr. Brown's father had established a store in the same location some 50 years previously, and it had been operated under the same firm name ever since. Mr. Brown maintained an attractive store, managed it by progressive methods, and did an excellent business with the better-class trade. He attributed much of his success to the good will attached to his location. Mr. Brown's sales were about $190,000 a year. The rent on his location was $2,100 a year.

The Commonwealth Realty Company, which operated as a subsidiary of the Commonwealth Grocery Company, secured a lease of the entire building of which Mr. Brown's store occupied a part, at a rental of $5,700 a year. The part occupied by Mr. Brown was then leased to a drug store, which had outgrown its previous quarters, at the same rental which Brown had paid, and Brown was forced to vacate. Other tenants in the building were allowed to remain. The Commonwealth Grocery Company, shortly afterwards, located its new store directly across the street from the old Brown location. The management of the Commonwealth Company felt that it would have had considerable initial ill-will to overcome if, by placing its first store in the old Brown location, it had allowed the public to believe that it had been instrumental in forcing Brown to vacate.

Question

Was the Commonwealth Company justified in its procedure?

Organization 43

The Criterion Department Store—Ground Rent or Building Lease

The Criterion Department Store was founded as a small dry goods and fur business near the corner of Sixth Street and Pershing Avenue in a large Ohio City in 1897. The growth of the business necessitated removing in 1900 to a location on Carson Avenue between Sixth Street and East Eighth Street. At the time this change was made, the Criterion Company bought an old building and remodeled it to suit its purposes. In 1921, the volume of business had again grown to a point where it was necessary to seek new quarters. Property values having risen, the Criterion Company found that it would be able to dispose of its real estate holdings at a profit.

After a careful study of the retail district and a survey of possible future developments in transportation, the executives of this store decided that the most desirable situation for their business would be farther out Carson Avenue near 17th Street. They at first thought of purchasing property there and putting up a new building, but the owners of the location which seemed most desirable were unwilling to sell outright, although they had no objection to a long-term ground lease. The Criterion Company was in an excellent financial position and was amply able to finance the construction of the type of building which their business required. They were about to close the deal for a ground lease on this property when the owners decided that they would prefer to erect whatever type of building the Criterion Company desired and lease both land and building to it. The owners offered a 15-year lease on land and building at a figure which corresponded favorably with other rentals in that neighborhood. They offered the privilege of renewal at the end of the 15-year period at a 20% advance in rent. Some of the executives of the Criterion Company thought that the development of that section of the city would not be so rapid as to justify a 20% increase in rent at the end of 15 years.

There was a building site available at the corner of 14th Street and Carson Avenue, and the owners of this property were willing to give a long-term ground lease. This site, however, was, in the opinion of some of the other executives, not large enough to

take care of the expansion which they thought it likely the business would have within the next 10 or 15 years, and there seemed to be no chance of renting or acquiring any adjacent property.

Question

What factors should the executives of the Criterion Department Store have taken into consideration in deciding whether or not to accept the proposition made by the owners of the property at 17th Street and Carson Avenue?

C. PLANT LOCATION AND EQUIPMENT

2. EQUIPMENT PROBLEMS

Organization 44

Emerson Company—Equipment—Cash Registers vs. Central Tube or Cable System

In making plans for its new building the Emerson Company is undecided whether to install cash registers, tubes, or the traveling cable system. There has been much dispute as to the respective merits of these three systems for handling sales and the competition between the manufacturers of the rival appliances is keen.

It is possible to lease the cable system. Under such an arrangement, the manufacturer agrees to keep the cable system in repair and to install equipment for any necessary expansions which may be required in order to make the service efficient. Minor repairs, such as broken cables, and all oiling are looked after by the store. In addition to paying a yearly rental for the use of the cable system, the store pays for the electric power required to run the apparatus. The cable system, however, is considered by some store managers to be noisy, slow, and unsightly when compared with the tube system, and transactions

which require two minutes by cable can be completed in from 15 to 30 seconds by tube.

With a decentralized cash register system, responsibility for the handling of all cash sales is placed on the salesperson. When a multiple drawer cash register is sued, each salesperson has her own drawer which contains all the money she has received from her sales. Thus if there is a mistake made in change, or if a shortage occurs for any reason, the error can be traced to the person responsible. By using recording tape with the cash register, it is possible to audit sales daily in a comparatively short time and with a smaller clerical force than would be possible were another system in use. In the "clerk wrap" or "envelop" departments, where small articles are wrapped by the salesperson, time can be saved by the use of the cash register. In the coat and suit departments, however, more time is required for wrapping up the merchandise and it is not as necessary to make a rapid transaction. Furthermore, during the holiday season, when the sales force of the store is expanded by over 100 additional employees, at least 17 extra cash registers are required. If the cash register system were used, moreover, it would also be necessary to install an automatic telephone system for the authorization of charge sales.

The tube system takes away from the salesperson all responsibility for making of change or the handling of cash sales. To install a good tube system, however, would cost the Emerson store at least $41,000. In addition the store would have to pay for electric power for operating the system. A recent invention on the tube system makes it possible to separate cash and charge sales automatically by placing the charge slips in a different container from that used for handling cash. The charge memorandum is automatically delivered to the credit department instead of to the cashier's desk, which permits cash service to any part of the store in from 30 to 40 seconds, and charge service in approximately 50 seconds. During normal periods the central station can be set for operation with but two or three cashiers and only one clerk is needed in the authorization bureau of the credit department. In rush seasons, it would be a simple matter to open up new tubes and add more employees to the cashier force. Furthermore, when the sales force is expanded at Christmas time, but little instruction would be needed to teach

the salesgirls to put the cash and sales slips in a container and toss it into the tube. Consequently, the sales for the different departments would not be confused, nor would many errors be made through the addition of extra employees.

On the other hand, it is asserted that the decentralized cash register system always gives quicker service on cash transactions, and that there are no delays due to mechanical difficulties. The cost of upkeep, moreover, is small. The advocates of this system maintain that disputes between salespeople and customers over mistakes can be much more easily adjusted when all the parties to the transaction are in one place.

Questions

1. Which system should be adopted by the Emerson Company for use in its new building?
2. Would the same system be most satisfactory for all departments?

Organization 45

The Masterson Company—Bundle Conveyors

The Masterson Company operates four branch stores. It has a reputation for high-price merchandise, particularly fancy groceries and imported goods. Stress is placed on having the merchandise tastefully displayed and in attractive containers. About 65% of the business of each branch is handled through charge accounts. Approximately two-thirds of the total sales are delivered.

Travelers' slips are used in all of the stores of the Masterson Company. When a customer enters the building, she is given a white travelers' slip, which bears the serial number, at the central cashier's desk near the entrance. She takes this slip to each department where she selects her groceries. A salesperson writes on this slip the articles purchased and the amount

due, and marks the number of the travelers' slip on the package of groceries which she takes to the cashier's desk. When the customer has completed her selection of merchandise, she returns to the cashier's desk, where she pays her bill and receives her groceries, which are identified by their bearing the same number as the travelers' slip.

In case the customer wants her order delivered, a clerk at the cashier's desk writes down the order on a pink slip which also bears a serial number. The carbon copy of the order is made on a paper tape. Each time that the clerk writes down the name of the article she also copies the serial number which is at the head of the order slip and pulls out the tape about four inches and tears it off. These pieces of tape are then sent to the different departments where the orders are filled.

In the newest store of the Masterson Company, a traveling belt under each counter carries all merchandise to be delivered from each department to a chute in the rear of the store, where it slides down onto a table in the delivery room in the basement. There it is sorted and placed in bins along the wall according to the number on the order tape which is attached to each bundle. The merchandise is then checked up with the pink order blank and turned over to a truck driver to be delivered.

The Talbot Grocery Company operates a unit store across the street from one of the branches of the Masterson Company. This store carries a cheaper grade of merchandise and a large part of the business of this store is of the cash-and-carry type. The Talbot Company has a cash register in each department which stamps a serial number on each check when a sale is made. When a customer has selected her merchandise in one department, she is given a cash register check showing the amount due, and the serial number of her purchase. The merchandise is wrapped and marked with the same number as that on the cash register check and then thrown onto a bundle conveyor for delivery at the center desk near the front of the store. There the customer pays the various amounts shown on her checks and receives her groceries, which are identified by the same numbers as those on the sales check. The traveling belt in the Talbot Company's store operates on rollers in an overhead rack about seven feet from the floor. It is necessary to have this traveling belt overhead in order to deliver groceries on the

table at the center desk, which is on the same floor as the various departments.

The oldest store of the Masterson Company has no bundle conveyor of any kind, although it uses the system for handling sales that is used in the newest branch of the firm. Thus it is necessary for the salespeople of each department to take packages to the cashier's desk for all cash-and-carry sales and also to take to the basement all merchandise which is to be delivered.

The directors of the company have decided to install in the old store the same type of bundle conveyor as is now in operation in their newest branch. This store employs 103 people, and it is estimated that by installing a belt conveyor under the counter to handle all merchandise which is to be delivered, this force can be reduced to 78. It is also estimated that by putting in an overhead conveyor, like that in use by the Talbot Company, the store can dispense with the services of 12 additional employees. The directors have decided, however, that an overhead bundle conveyor would detract from the appearance of the store, injure its prestige, and cause customers to class it with the Talbot Grocery Company, which handles cheaper lines of merchandise.

Question

Are the directors of the Masterson Company justified in their decision not to risk sacrificing any prestige by installing an overhead bundle conveyor?

Organization 46

Wilkins & Wilkins—Equipment—Elevators

Wilkins & Wilkins is an old, established company, well-known throughout the northern part of the state in which it is located. The management of this department store has followed conservative methods of expansion. When the business had outgrown the old building, instead of moving into a new structure, the old one was remodeled and five additional floors were added to the original floors. Later, when even this remodeled building

was outgrown, a new addition, called the annex, was erected across the street.

In the old building a grand stairway was located in the center of the floors. When the building was enlarged, elevators were installed, singly or in pairs, at different points in the store. Although the idea of the managers in separating the elevators was to make them more convenient to customers, they placed most of them in the rear of the building in order to draw the traffic past as many display cases as possible. This plan proved to have disadvantages, for it resulted in congestion in the aisles near the elevators at rush hours. At holiday time the traffic problem was especially serious, as the crowds in the first-floor departments interfered with the sale of goods, making it almost impossible for the salespeople to render quick and efficient service. Profiting by this experience, when the new annex was constructed the managers had the elevators arranged in banks at the sides of the building near the main entrance to expedite the movement of the crowds. The stairways, encased in fire-proof walls with heavy metal-covered doors, were placed near the corner of the building on each floor instead of being in the center of the store as in the old structure.

At present all the elevators in both buildings are operated locally, so that every car stops at all floors both going up and coming down. The managers believe, however, that the elevator service could be handled more satisfactorily if a change were made in the method of operation. Some of the other stores operate their elevator service in such a way that one bank of cars carries passengers only on the ascent, and another bank takes passengers only on the downward trip. Other stores make a practice of operating express cars to certain floors on the way up, but on the downward trip all cars are local and stop at all floors. Others operate elevators on an express schedule on both upward and downward trips. One company reserves an elevator for the exclusive use of its employees, while other firms permit their workers to ride in the cars with the customers. Many stores reserve one or two elevators for freight service only, while others which are handicapped because of a lack of this type of equipment handle all freight and express in the passenger elevators, but only at certain hours when this equipment is not required for the transportation of passengers.

The managers are also considering the remodeling of the old store in the near future, at which time they contemplate removing the central stairway if satisfactory arrangements can be made for locating other stairways to take its place. The old store extends its length along one of the main streets of the city, on which it has two entrances, one near each end. It also has one entrance in the center of each side, leaving the rear with a dead wall. The annex is laid out on the same plan.

In the new building the men's suit and men's furnishings departments are located on the second floor. In order to overcome the prejudice of many men against trading in a department store, the managers of Wilkins & Wilkins are anxious to find some means of transporting its men customers to the second floor without compelling them to pass through crowds of women shoppers. They are undecided as to whether this problem can best be solved by an escalator, an elevator, or a broad stairway.

Question

1. Should one elevator in each store be reserved for the handling of freight only?

2. Should employees have one elevator reserved for their exclusive use, or should they be permitted to use the same elevators as the customers of the store?

3. Should elevators be operated on an express schedule to certain floors?

   (*a*) If so, should they be run express up and local down?

4. Should one set of elevators carry passengers only on the upward trip, while others carry passengers only on the descent?

5. Should elevators which are scattered about the old store singly or in pairs be operated in the same manner as those located in banks in the new annex?

6. What relation should the layout of the store have to the elevator service?

7. In providing for easy transportation of customers to the men's department on the second floor, should elevator, escalator, or broad stairway be installed?

8. Where should such equipment be located with reference to the entrances, main isles, and present elevator equipment?

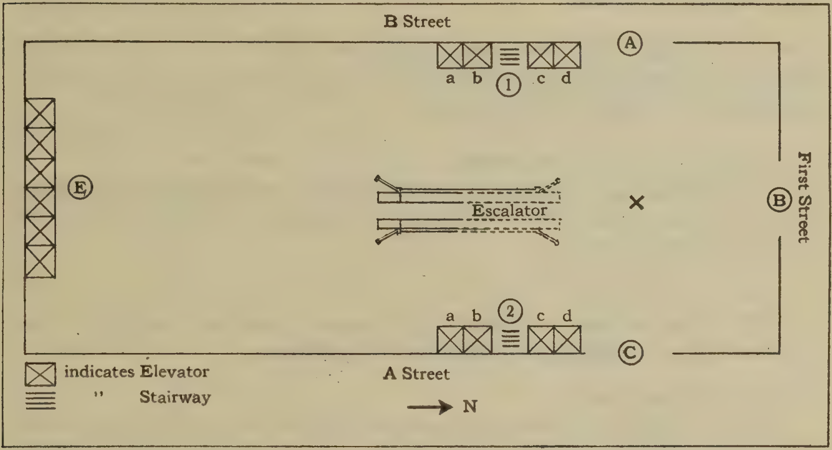
9. In remodeling the old store would it be advisable to do away with the old central stairway?

Organization 47

Pardeau's, Inc.—Arrangement of Elevators and Escalators

The firm of Pardeau's, Inc., operates a department store in one of the large cities in the Middle West. The store carries a complete stock of the various kinds of merchandise usually found in large department stores. It has six selling floors, one below the ground and five above. The store is located at the southeast corner of the main retail selling district, B Street between First and Second Streets being the preferred location.

The layout of the elevators, stairways, and escalators from the first floor is indicated by the diagram below:



FORM No. 43. Pardeau's, Inc.—Layout of Elevators, Stairways and Escalators

In the basement and on the four upper floors this layout is the same, but, of course, the entrances are eliminated.

Of the three entrances, entrance A is the most used and entrance B is used almost as much. Entrance C is used by perhaps one-half as many people as entrance A.

When the store was first built the three banks of elevators were installed, but there was no escalator as shown in the diagram. As the business grew, it was found that the elevators did not provide sufficient facilities for preventing congestion in the general neighborhood of the point marked X on the diagram. To reduce congestion and provide a quick, simple, and inviting way to the second floor the escalator was installed. Later,

additional escalators were placed in similar locations on all the upper selling floors. There is no escalator between the basement and the first floor.

At present the elevators are operated as follows:

In bank 1, elevators B, C, and D are operated from the basement to the fifth floor, making no stops at other floors. Elevator A runs local from the basement to the offices on the 6th floor. In bank 2, all elevators run local from the basement to the restaurant on the 7th floor. Car D, in this bank, runs express to the 7th floor from 11 to 2 o'clock. In bank 3, all elevators run local from the basement to the 7th floor, but none makes stops at the 6th floor.

In arranging the elevators and escalators, the engineering division at Pardeau's was guided by the following points, which are named in order of importance:

1. Convenience to Customers

The management desired to have the transportation facilities in the store such that customers could get in and out with the least inconvenience.

2. Large Capacity

The store wished to handle the largest possible number of customers in as expeditious a manner as possible.

3. Avoid Congestion

Such crowds as previously gathered near the point indicated by X in the diagram on the first floor were distinctly undesirable in spite of the old argument that a crowd always attracts.

4. Induce Circulation

The engineering department believed that the best way to handle a crowd was to so place the equipment that a natural circulation would be induced.

5. Leading Customers Past Displays

The owners of Pardeau's and the merchandise staff believed that ideally the elevators offering the means of transportation should be so located that it would be necessary for customers to pass as many displays as possible. This idea, however, could rarely be carried out because to accomplish it the store would be obliged to violate the principles of convenience and to interfere with the rapid handling of large numbers.

When the crowding on the first floor already mentioned made it necessary to increase the lifting equipment between the first and second floors, the store selected an escalator rather than extra elevators because the capacity of the escalator far exceeds that of the elevator, and because the escalator discharges its passengers in the middle of the second floor and gives them no means of returning to the first floor without passing display space to the elevators. In addition, the escalator automatically discharges its passengers at each floor instead of carrying them through in a closed car as the elevator does. For this reason, customers using the escalator are subjected to a much stronger temptation to stop and look about the store than are those using the elevators.

Questions

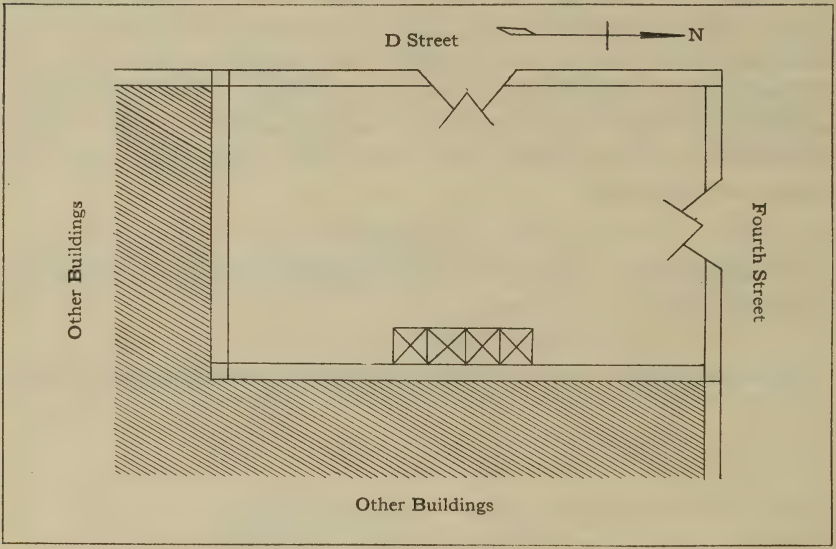
1. Should the position of the elevators or the methods of operating them be changed?
   (*a*) If so, how, and why?
2. Is the theory on which the escalators were installed sound?

Organization 48

Lathrop and Company—Location and Operation of Elevators

Mr. William L. Lathrop, President of Lathrop and Company, a firm conducting a high-class specialty shop, when asked where in a store elevators should be located, stated that ideally they should be so placed that to reach them customers would have to walk past as much displayed merchandise as possible. Mr. Lathrop immediately went on to say that this idea can rarely be carried out, because the convenience of the customer must be considered first, and the final location selected for the elevators must be a balance between the most convenient place and the ideal place.

The store of Lathrop and Company had established for itself a good reputation, and it had a large clientele in the older retail district. When a movement away from that district seemed imminent a few years ago, Lathrop's decided to be among the first to move, and as a result the store now occupies a preferred location in the newer retail district which is in the course of development.



FORM No. 44. Lathrop and Company—Skeleton Plan of First Floor in New Building

The new building of the store, of which a skeleton plan of the first floor is shown above, has four selling floors, the first floor being given over to convenience lines such as umbrellas, jewelry, leather goods, hosiery, underwear, and small wares; the second floor to tailored suits, skirts, and cloaks; the third floor to gowns, wraps, corsets, and fitting rooms; and the fourth floor to misses' and children's departments. The store's sales aggregate in the neighborhood of $5,000,000 a year.

In this new store Mr. Lathrop has placed the elevators on the east side slightly back of the center of the store. The north and west sides were ruled out because this space was needed for windows and for selling space immediately behind the windows. Also, elevators could not have been conveniently located on either of these sides without interfering with the entrances.

When placed against a blank wall, the elevators caused as little waste space as possible. There were two major motives governing Mr. Lathrop's selection of a position; in the first place he wanted the elevators convenient to both entrances and so located that the customers would have to pass some displayed merchandise in getting to them; in the second place he wanted the elevators so located that when customers left the elevators on an upper floor they could see as much as possible of that selling floor. From his conversation Mr. Lathrop led the interviewer to believe that even if there had been no "D" street entrance, he would have placed the elevators where they are now located.

With regard to the operation of elevators, Mr. Lathrop's impression was that the convenience and the psychology of the customer should govern. Expeditious handling of traffic is a secondary consideration, if it interferes with this fundamental principle. For example, it aggravates a customer to stand at a car door waiting for an elevator and see express elevators go by without stopping. The express elevator undoubtedly, according to Mr. Lathrop, speeds up the handling of people. He also feels that it injures good will, and accordingly in his store all elevators are operated local. The same line of reasoning leads Mr. Lathrop to avoid the operation of elevators in one direction only.

Questions

1. What are the disadvantages of the arrangement of elevators in Lathrop and Company's store?
2. Are the advantages of this arrangement those which Mr. Lathrop hoped to secure?
3. Is the operation of the elevators in Lathrop and Company's store, and the principle of their location as set forth by Mr. Lathrop, inconsistent with the principles which govern the location and operation of elevators in the department store of Pardeau's, Inc.?

PART V

MERCHANDISE PROBLEMS

PART V

MERCHANDISE PROBLEMS

A STORE operates to SELL MERCHANDISE at a profit, and it is practically true that all retail problems arise as aids to selling. In order to sell, there must be stocks which have been bought; which suggests three major groups of Merchandise Problems, Selling, Stock and Buying. There are, however, questions which arise having to do with all three of these major groups and which form the general merchandise policies in particular stores. They deal with general plans for organization of merchandise departments, (including new departments), layout, and merchandise control, with special reference to selling strategy.

The following classification of the Merchandise section is made:

A. Merchandise Classification
B. Stock Control
C. Layout
D. General Merchandise Policies
E. Other Merchandise Problems

In a departmental organization, a study of merchandise classification is necessary in order to get comparable figures between stores, as well as to aid in placing related merchandise together.

Stock control deals with the planning of merchandise activities, both to outline the relationship between Buying, Stock, and Selling plans, and to insure an ample supply of merchandise to meet selling needs.

A studied layout should not only increase sales, but should decrease selling expenses.

An effort is made in the sections on General Merchandise Policies and other Merchandise Problems to sum up many of

the problems dealing with Selling, Stock, Buying, and General Administrative questions, in order to give those students who wish to take a half-year course in Retailing at least a general understanding of those problems which are taken up more in detail in the last sections of the book.

A. MERCHANDISE CLASSIFICATION

Merchandise 1

Carson, Hayes & Sons—Merchandise Classification

The Carson, Hayes & Sons' Department Store had sales, in 1920, as follows:

Silk Piece Goods	$75,476.18
Wash Goods	27,849.72
Blankets	24,132.95
Ribbons	57,168.72
Laces and Embroideries	32,185.19
Dress Goods	97,384.29
Notions	27,185.62
Handkerchiefs	13,132.85
Women's Coats and Suits	113,472.68
Misses' Ready-to-Wear	108,374.15
Silverware	27,185.19
Drugs	48,192.13
Ivoryware	5,192.12
Art Goods	7,132.18
Patterns	7,139.06
Trimmings	3,142.57
Leather Goods	13,143.19
Furs	119,872.14
Sporting Goods	87,500.06
Hosiery	28,192.17
Aprons and House Dresses	10,674.37
Millinery	19,575.68
Waists and Blouses	25,172.98
Boys' Wear	48,116.37
Jewelry	15,147.18
Men's Shoes	37,195.84
Women's Shoes	64,113.75

Knit Goods	$18,343.87
Shoe Shine and Repairing	4,372.18
Furniture	57,985.27
House Furnishings	110,374.15
Restaurant	148,275.67
Books	87,343.75
Toys	25,132.18
Candy and Soda Fountain	97,642.75
Automobile Supplies	13,172.18
Manicure and Hairdressing Parlors	42,387.94
Pianos and Talking Machines	25,862.47
Luggage	4,097.07
Kodaks and Optical Goods	13,092.61
Groceries	62,183.19
Hair Goods	25,374.19
Bargain Basement	347,062.89
Miscellaneous	147,132.28
Total	$2,372,883.97

This store was organized into the following selling departments:

Dry Goods
Women's Ready-to-Wear
Small Wares and Notions
Shoes
Furniture
House Furnishings
Men's and Boys' Clothing
Furs
Drugs, Toilet Goods, and Candy
Jewelry and Silverware
Books
Groceries
Bargain Basement
Annex (Toys, Sporting Goods, and Automobile Supplies)

With the increasing volume of business, the management felt the necessity of reorganizing the selling departments, since some of them had grown too unwieldy to be handled by a single buyer and assistant. A further incentive was the desire to know more accurately the costs of selling certain lines of merchandise. Before taking any definite steps, however, the directors wished to see the standard merchandise classification which they understood was being prepared by a committee of the Controllers' Congress of the National Retail Dry Goods Association. This classification was issued in the Preliminary Publication of the Controllers' Congress in June, 1921. It read as follows:

MERCHANDISE CLASSIFICATION

Group I 8 Departments	Group II 34 Departments	Group III 59 Departments	Group IV 112 Departments
Dry Goods	Dress Goods	Dress Goods Linings	Black Dress Goods Colored Dress Goods Linings
	Silks	Silks Velvets	Colored Silks Black Silks Velvets
	Linens and Domestics	Linens and White Goods Wash Goods, Blankets and Comforts	White Goods Linens Wash Goods Cotton and Sheetings Blankets and Comforts
	Laces, Trimmings and Embroideries	Laces, Trimmings and Embroideries	Laces, Trimmings Embroideries
	Neckwear and Veilings	Neckwear and Veilings	Neckwear Veilings
	Ribbons	Ribbons	Ribbons
Small Wares	Notions and Patterns	Notions and Patterns	Notions Patterns
	Toilet Articles	Toilet Articles and Drugs	Toilet Articles Ivoryware Drugs
	Handkerchiefs	Handkerchiefs	Handkerchiefs
	Silverware and Jewelry	Silverware and Jewelry	Silverware Jewelry
	Leather Goods, Umbrellas and Parasols	Leather Goods Umbrellas, Parasols and Canes	Leather Goods Umbrellas, Parasols and Canes
	Art Needlework and Art Goods	Art Needlework and Art Goods	Art Needlework Art Goods
Men's and Boys' Wear	Men's Clothing	Men's Clothing	Men's Clothing
	Men's Furnishings	Men's Furnishings Men's Hats and Caps	Robes and Smoking Jackets Men's Furnishings Men's Hats
	Boys' Wear	Boys' Clothing Boys' Furnishings	Boys' Clothing Boys' Furnishings Caps
	Coats, Suits and Skirts	Coats Suits Skirts	Women's Coats Women's Suits Women's Skirts Women's Dresses Women's Stouts

MERCHANDISE CLASSIFICATION—*Continued*

Group I 8 Departments	Group II 34 Departments	Group III 59 Departments	Group IV 112 Departments
Women's and Misses' Ready-to-Wear	Dresses	Dresses	Misses' Coats Misses' Suits Misses' Skirts Misses' Dresses
		Misses' Wear	
	Furs	Furs Fur Storage	Furs Fur Storage
	Juniors and Girls	Juniors and Girls	Juniors and Girls
	Waists, Sweaters and Knit Goods	Waists and Blouses Sweaters and Knit Goods	Waists and Blouses Sweaters and Knit Goods Sports Wear
Women's Ready-to-Wear Accessories	Millinery	Millinery	Millinery
	Hosiery and Gloves	Hosiery Gloves	Hosiery Gloves
	Corsets, Underwear and Infants' Wear	Corsets and Brassieres Knit Underwear Muslin Underwear Infants' Wear	Corsets and Brassieres Knit Underwear Muslin Underwear Bathing Suits Infants' Wear
	Petticoats, Negligees and House Dresses	Petticoats, Negligees and House Dresses	Petticoats Negligees Aprons and House Dresses
Shoes	Women's and Children's Shoes	Women's Shoes Children's Shoes	Women's Shoes Children's Shoes
	Men's and Boys' Shoes	Men's and Boys' Shoes	Men's Shoes Boys' Shoes
			Shoe Shine Repairs
Home Furnishings	Furniture, Beds, Etc.	Furniture, Beds, Etc.	Furniture Beds, Mattresses and Springs
	Floor Coverings	Rugs Carpets, Linoleums and Mattings	Oriental Rugs Domestic Rugs Carpets Linoleums and Mattings
	Draperies and Lamps	Draperies and Lamps	Draperies Lamps Shades Decorating Wall Paper

MERCHANDISE CLASSIFICATION—*Continued*

Group I 8 Departments	Group II 34 Departments	Group III 59 Departments	Group IV 112 Departments
	China and Glassware	China and Glassware	China and Glassware
Home Furnishings (Continued)	House Furnishings	House Furnishings	House Furnishings Pictures and Picture Framing Sewing Machines Electrical Equipment
	Toys and Luggage	Toys and Sporting Goods Luggage	Toys Sporting Goods Camera Supplies Luggage Automobile Supplies
	Books and Stationery	Books and Stationery	Books and Magazines Stationery
Miscellaneous	Talking Machines	Talking Machines, Etc.	Talking Machines Records and Rolls Pianos and Piano Players Sheet Music
			Washing Machines Vacuum Cleaners Optician and Optical Goods
		Candy	Candy Soda Foundain
		Restaurant	Restaurant
		Ready-to-Wear	Coats Suits Skirts Dresses Waists
		Ready-to-Wear Accessories	Corsets Hosiery Knit Underwear Muslin Underwear
Basement Store			Children's
		Millinery	Millinery
			Small Wares Piece Goods
		Shoes	Shoes
			Draperies

Questions

1. Should the Carson, Hayes & Sons' Department Store have adopted this classification?
2. Which group would they have found best suited to their purposes?

Merchandise 2

The Thayer Beck Department Store—Merchandise Classification

When the war-time revenue acts of 1918 and 1919 placed a tax on jewelry and similar articles, the Thayer Beck Department Store found that it was carrying taxable merchandise in 13 of its 72 departments. For example, buckles were carried in the shoe department, scarf pins and cuff links in the furnishing department, and silver picture frames in the picture department. The store's sales aggregated $10,399,052 in 1917. This total included the receipts in the leased departments; that is, the beauty parlor, the barber shop, and the victrola and sewing machine departments, as well as the store's own departments, which included notions, novelties, dry goods, men's, women's and children's wear, household articles, and furniture. The store's accounting department found that the work of compiling tax returns was considerably complicated by the fact that taxable merchandise was carried in so many departments.

Question

Should the store have combined all taxable items of jewelry into one department?

Merchandise 3

Wheeler & Vanderman—Merchandise Classification of Jewelry Stores

Forty years ago, Wheeler and Vanderman were watch repair men in the jewelry store that they now own. Wheeler still spends part of each day working at the bench, while Vanderman divides his time between selling and management. One regular and one part-time man are employed in repairing watches, clocks, and jewelry. Two full-time salespersons are employed.

The Wheeler and Vanderman store is located in a city of about 16,000 in the central part of New York state. Its volume of sales in 1920 was $79,471.22, of which amount about one-fifth consisted of receipts from repairing and engraving.

The merchandise carried by Wheeler and Vanderman consists of diamonds, rings, gold jewelry, precious stones, emblems, plated and filled jewelry, antiques, ladies' and men's watches, clocks, art goods, stationery, fountain pens, pencils, sterling and plated silver, toilet goods, leather goods, novelties, cut glass, china, watch chains, necklaces, imitation pearls, optical goods, photographic goods, umbrellas and canes, and miscellaneous. Some of the merchandise has been carried in stock for years.

During the period from 1917 to 1920 sales of diamonds and other precious stones increased over 100%. Vanderman wished to continue to enlarge this part of the business by offering a wider range of merchandise to those customers who were interested in precious stones. He pointed out that when a diamond was sold there was no "come back" on it; no work had to be done in the way of repairs, cleaning, or engraving. Consequently, he believed that precious stones were more profitable than silverware or watches, for instance. Wheeler, however, distrusted underlying business conditions and succeeded in prevailing upon his partner not to load up too heavily with precious stones.

Wheeler and Vanderman employ a bookkeeper to work four evenings a week on their accounts. No attempt is made to keep the accounts for the repairing and engraving part of the business separate from the records of merchandise transactions.

Recently, Wheeler and Vanderman were asked to send to the Tri-State Jewelers' Research Association a list of their depart-

ments and of the merchandise included in each. They replied that their business was not departmentized. This matter, however, has since been an occasional topic of discussion. Vanderman is inclined to argue that the business should be departmentized, at least to a certain extent, but Wheeler is unable to see any reason for such a step.

Questions

1. What advantages would result to Wheeler and Vanderman from departmentizing their business?
2. Into what departments should their business be divided?
3. What should be included in each department?

Merchandise 4

Henderson & Snow—Merchandise Classification in Retail Jewelry Store

Most retail jewelry stores show little agreement as regards the classification of merchandise into departments. A considerable number of stores are inclined to follow the practice of classifying goods according to the proportions of material; that is, silver deposit ware would be classified with sterling silver rather than with cut glass, gold pens and pencils with gold goods rather than with stationery, diamond-mounted wrist watches with diamonds rather than with watches, and sterling toilet ware with sterling silver rather than with toilet ware.

On the other hand, in many other stores the merchandise is classified according to the uses of the various articles. In these stores pens and pencils of gold and silver are classified with stationery; all toilet goods, no matter of what material, are classified together; and occasionally chains are found classified with watches. In most of these cases the underlying idea is to place the merchandise where the customer would most naturally expect to find it. Of course, in all stores, considerations of layout

and display affect to a greater or less extent the methods of classification used. Some stores, for instance, have found it advisable to include sterling and plated silver goods in the same department, or at least to have these goods displayed close together, in order to avoid the embarrassment of having to direct a customer to another part of the store in case it develops that plated goods rather than sterling are desired.

In many stores the classification of silver goods, both sterling and plated, into hollow ware and flat ware has been found useful. Not infrequently gold goods are classified into 10 karat gold goods and 14 karat gold goods. Occasionally articles are classified according to whether they are to be used by men or by women. In a few stores some attempt has been made to place in the same department all goods having approximately the same percentage of mark-up, but most jewelers seem to feel that this is over-emphasizing accounting to the disadvantage of selling.

The jewelry business of Henderson and Snow has grown gradually from a small watch repair shop established nearly 100 years ago by J. L. Snow, grandfather of one of the present partners. In 1920 the total volume of sales was $1,768,465.17. As the business has expanded, new departments have been created from time to time, and articles of merchandise have been shifted from one department to another without much regard for any principles of classification. Frequently the prime consideration has been the ability of various department managers and salesmen to handle certain lines of merchandise. The present classification of merchandise is as follows:

Dept. 1. Diamonds.

Dept. 4. Watches.

Dept. 5. Insignia Department.

Dept. 6. 14k Gold Goods, Pencils, Fountain Pens and any Gold or Silver Article formerly in Stationery Department.

Dept. 7. Sterling Silver Flatware, Salt and Peppers, Napkin Rings and Clips, Tea Balls and Holders, Tea Strainers and Holders, Rattles, Bib Holders.

Dept. 8. Sterling Silver Hollow Ware in the wall cases, including Child's Cups, Pap Bowls, Porringers.

Dept. 9. Sterling Silver Toilet Ware, Cologne Bottles, Cigar Trays and Boxes, Flasks, Match and Cigarette Boxes, and all Fancy Goods.

Dept. 10.	Plain Ivory or Ebony Toilet Ware, Plain Unmounted Leather Goods, including Nickel Plated and Gunmetal Frames and Catches, Picture Frames, all Hand Bags and Purses $7.50 and under, all Traveling Bags and Fitted Toilet Cases $25 and under. Vacuum Goods, Brass, Nickel and Bronze Articles, Nickel and Copper Chafing Dishes, Percolators, etc., all Wood Mahogany Trays, Humidors, Nut Bowls, etc., Silver Polish, all Lamps $25 and under.
Dept. 12.	Stationery.
Dept. 13.	Gold and Silver Mounted Leather Goods, including Gold Plated Frames and Catches, Mesh Bags, Vanity Cases and Boxes, Picture Frames, Desk Goods and Enamel Goods. (See Depts. 10 and 50 for other Leather Goods.)
Dept. 15.	10k Gold Goods.
Dept. 16.	Opera and Field Glasses, Umbrellas and Canes, all Jewelry, not Gold but including Jet, Pearl Beads.
Dept. 19.	Hall Clocks, Mantel Clocks, Ingersoll Watches.
Dept. 22.	Silver Plated Flatware, Hollow Ware, Toilet Ware and Fancy Articles, Plateaux, Chafing Dishes, Spoons and Forks, Prize Cups, Cutlery.
Dept. 24.	Cut Glass.
Dept. 30.	Jewelry Repairing.
Dept. 31.	Watch Repairing.
Dept. 32.	Clock Repairing.
Dept. 33.	Engraving Department.
Dept. 50.	All Leather Hand Bags and Purses in excess of $7.50; Traveling Bags and Fitted Toilet Cases in excess of $25; Lamps of all kinds in excess of $25; Canes and Umbrellas, no mountings in excess of $4.

Question

What changes, if any, should be made in this merchandise classification?

Merchandise 5

Dodge & MacPherson, Inc.—Merchandise Classification-Duplication

A few years ago, when ladies' woolen scarfs were popular, Mrs. Lambert, the buyer of the neckwear department in the specialty shop of Dodge & MacPherson, Inc., put in a large assortment. She first stocked scarfs late in the fall while they were yet new. Hence, Dodge & MacPherson, Inc., was one of the first stores in the city to carry the new line. This business grew rapidly, and the store soon acquired the reputation of having the best selection in the city. During the winter the scarfs became more and more popular. They gradually increased in width and the next season manufacturers brought out scarfs upwards of 18 inches wide, which had pockets and a belt. Soon sets were introduced including the scarf, a belt, and a knit cap.

When these sets came out, Miss Carter, the buyer of the sweater department on the 3rd floor, stocked them. Of course, it was not long before Mrs. Lambert noticed that Miss Carter was carrying the scarfs. Both buyers immediately complained to the merchandise office.

It had always been the store's policy to permit no duplication of merchandise, because it had been decided that each buyer was, or ought to be, an expert in his lines, and that it would not be worth his while to attempt to increase the sales of some article in his department if that article could then be stocked by another buyer in another department. It was much better, the merchandise manager believed, to have one strong department than several weak ones.

When this question came up to Mr. MacPherson, he decided that scarfs of less than 16 inches in width were neckwear and should be carried by Mrs. Lambert in her first-floor department, and that scarfs of 16 inches' width or more were sweaters and were the exclusive field of Miss Carter and the sweater department. In making this decision Mr. MacPherson realized that he was taking a considerable loss, because he believed that if all the scarfs were carried in the first-floor department, the sales would be at least $35,000 a year more than they would be under the division which he made. Nevertheless, Mr. MacPherson was satisfied that his decision was a wise one. He thought that the maintenance of his principle was worth this loss.

Questions

1. What is to be said for and against Mr. MacPherson's stand?
2. What other solution of the problem, which does not violate Mr. MacPherson's principle, would have been satisfactory from the point of view of sales volume?

B. STOCK CONTROL

Merchandise 6

Brockhurst Stores, Inc.—Stock

The Brockhurst Company operates 170 retail grocery stores. Weekly sales in these stores range from $400 to $1,800. The stores carry groceries, potatoes, onions, and some fruit, but no meats, bakery goods, or green vegetables.

All merchandise is supplied from a warehouse located just outside the city where the offices of the company are also situated. Practically all the accounting is centralized in the company's main office. The central employment office supervises the hiring, training, discharge, and promotion of employees. The smaller stores are run by one man alone. In some of the larger stores there is a regular full-time assistant to the manager; others use the services of boys on one or two afternoons a week. All these stores are operated on a cash-and-carry plan. The managers deposit cash daily. Inventory is taken monthly. Managers are furnished with blanks on which to requisition goods. These order blanks are compared with their weekly reports at the main office in order to keep some check on stocks carried. Goods are delivered from the warehouse by truck. They are billed to the stores at retail prices. Over each group of 15 to 18 stores there is a superintendent, who calls on each store daily. The company has at present 9 superindents, divided into groups of 3; over each group there is a supervisor. The employee management department is coordinate with the supervisors.

Questions

1. By what means can the Brockhurst Company insure that its stores are kept properly stocked and that none of them is overstocked?
2. Who should have authority to make transfers of an article that is overstocked in one store to another store where it can be more quickly sold?
3. Should one store be allowed to borrow goods from another?
4. Who should be responsible for such transactions?
5. Who should be responsible for marking down prices, especially on perishable commodities that are in danger of spoiling?
6. How should shortages be traced and checked?

"Overages" occasionally result because store managers, being anxious to prevent shortages, may give customers a scant pound of butter or a short peck of potatoes.

Question

How should the problem of overages be handled?

For a time the Brockhurst stores followed the plan of having one shelf on which were prominently displayed all the different brands of canned and package goods carried by them. It was felt that this plan was of considerable advertising value. In 1920, however, it was discontinued.

Question

What were the probable reasons for this move?

MERCHANDISE 7

THE J. B. WOLFSEN CO.—OPEN TO BUY

The J. B. Wolfsen Company's department store, in one of the large eastern cities, has an annual sales volume ranging from $9,000,000 to $10,000,000. The merchandise carried is of a quality calculated to appeal to the best class of department store trade. In recent years there has been a tendency to build up a larger volume of sales in the more rapidly moving lines, such as hosiery and women's ready-to-wear. This has been done to some extent at the expense of the dry-goods departments, where sales have fallen off considerably. A number of years ago the Wolfsen Company erected its store in the heart of the shopping district. The business has expanded so that these quarters have become cramped, even though some slowly moving lines, such as furniture and house furnishings, have recently been dropped. The resulting poor layout and badly crowded condition of a number of departments are handicaps which the management strives to overcome by the application of scientific methods of control. The store has a centralized statistical department which is distinct from the auditing department, although both are responsible to the store controller, at whose suggestion certain changes were made in the merchandise control system at the beginning of 1919.

Previous to January 1, 1919, the store figured an "Open to Buy" for each buyer at the beginning of each month. For this calculation the following form was used:

Stock on hand today	....
Stock in storage today	....
Stock in transit today	....
Stock on present order today*	....
Total available stock	....
Less estimated sales balance of month	....
Estimated stock close of month	....
Less planned stock close of month	....
O.T.B. (if red), Excess (if black)	....

*This is, stock on order due to be received before end of month

During the four or five years immediately preceding January 1, 1919, the mark-downs in a number of the departments had been extraordinarily high; also several buyers were always complaining, around the middle of the month, that they were unable to fill in the colors and sizes which had been sold, or to take advantage of new market opportunities.

Beginning with January 1, 1919, the "Open to Buy" form was discontinued. A new "Buyers' Daily Report" form was devised to show the day to day balance, by departments, of stocks, orders, mark-ups, and sales. This new form was so arranged that a figure corresponding to the "Open to Buy" could be obtained by a simple process of addition and subtraction.

This form was printed in one large sheet with the names of the buyers and their department numbers listed in the stub. After the data had been entered, the sheet was torn into strips, each strip being a complete table for one buyer. The strip for each buyer was forwarded to that buyer daily, and a copy of the whole sheet was kept at the merchandise office.

RETAIL STOCK

Buyers and Departments	Estimated to be E.O.M.*	In Stock	In Storage	In Transit	Total Stock
	1919	1919	1919	1919	1918
Mr. Black					
9					
10					
16					
18					
59					

RETAIL STOCK

Buyer and Departments	Estimated to be E.O.M.*	In Stock	In Storage	In Transit	Total Stock
	1919	1919	1919	1919	1918
Mr. White					
23					
36					
49					
63					

*End of month.

On Order				Net Mark-Downs*	% Mark-Up			
Present		Future			Gross	Net	Net	Promised**
1919	1918	1919	1918		1919	1919	1918	1919

On Order				Net Mark-Downs*	% Mark-Up			
Present		Future			Gross	Net	Net	Promised**
1919	1918	1919	1918		1919	1919	1918	1919

*Since beginning of season, i.e., since February 1 or August 1.
**A mark-up at which the buyer has promised to aim, and which he has attained in the past.

Depts.	Sales				
	Today's		Estimated for Month	From First of Month to Date	
	1919	1918	1919	1919	1918
Mr. Black					

	Sales				
	Today's		Estimated for Month	From First of Month to Date	
	1919	1918	1919	1919	1918
Mr. White					

Question

What were the advantages of this new form over the old "Open to Buy" for controlling buyers?

MERCHANDISE 8

DAVID JUDKINS CO.—DETERMINING DEPARTMENTAL BUYING POWER

In the David Judkins Company, a New York specialty shop, the stock sheet in Dept. K for the week ending Feb. 15, 1921, is as follows:

STOCK SHEET

Selling Days in Month	24 Selling Days Passed	12 Week Ending
Selling Days in Month Last Year	24 Selling Days Passed Last Year	12 February 15, 1921

Dept. K.	Stock on Hand				Outstanding Orders at Retail					
	Stock on Hand Today Cost	Stock on Hand Today Retail	% M/U	Delivery Month of February	Delivery Month of March	Delivery Month of April	Balance Season Delivery	Other Seasons Delivery	Total on Order	% M/U
	1	2	3	4	5	6	7	8	9	10
1920	15,000	25,000	40	6,000	1,000	500	1,000	2,500	11,000	41
1921	18,000	30,000	40	4,000	2,000	1,000	300	1,500	8,800	38

Planned Stock at Retail			Planned Sales at Retail			Open to Buy at Retail				
Planned Stock End Month of Feb.	Planned Stock End Month of March	Planned Stock End of Season	Planned Sales Month of Feb.	Profit % Planned	Planned Sales Month of March	Planned Sales Balance Season	O.T.B. Month of Feb.	O.T.B. Month of March	O.T.B. Balance Season	Total O.T.B.
11	12	13	14	15	16	17	18	19	20	21
25,000	32,000	9,000	8,000	35	12,000	18,000				
20,000	25,000	8,000	10,000	33⅓	15,000	22,000				

		Sales at Retail				Mark-downs		
Accumulated Sales from First of Season	% Profit	Sales to Date this Month	% Profit	Sales this Week	% Profit	Mark-downs this Month	Mark-downs Season to Date	% Sales
22	23	24	25	26	27	28	29	30
3,500	32	3,500	32	1,200	34	200	200	5.7
4,000	31	4,000	31	2,200	32	75	75	1.8

Planned stocks and sales are determined in conferences between buyers and merchandise managers. The current season is Feb. 1 to July 31.

Questions

1. On the basis of this stock sheet what amount of merchandise is Dept. K "Open to Buy" for
   (*a*) the balance of February,
   (*b*) March,
   (*c*) the balance of the season?
2. What is the "Open to Buy" formula?

MERCHANDISE 9

BRANDERS & TEWKSBURY—DEPARTMENTIZATION

The department store of Branders and Tewksbury is located in a middle-class residential suburb of Chicago with a population of 19,187. The town is 35 minutes from the loop district by trolley, and somewhat nearer by train. Last year the store did a business of $105,000, employing eight salespeople, one cashier, and one bookkeeper. In addition, one of the partners was always present in the store attending to details of management, and if necessary, going on the floor to assist with the selling.

The stocks were divided into four departments as follows:—

Department 1. Men's Furnishings
Department 2. Domestics
Department 3. General Merchandise
Department 4. Patterns

The men's furnishing department included such items as shirts, collars, neckwear, collar buttons and cuff links, socks, and underwear. No shoes or clothing were carried. The domestics department carried various kinds of yard goods, draperies, beddings, and oil cloth. Department 3, general merchandise, was made up of smallwares and notions along with ladies' wear, and novelties. In ladies' wear only moderate-priced items were carried. The stock included corsets, muslin underwear, hosiery, waists, kimonas, night-wear, and a small assortment of house dresses.

Four of the salespeople were in charge of the stocks in the four departments, but they and the other salespeople sold in all departments. Practically all customers made purchases in more than one department, and it was almost impossible because of the small size of the store, for a salesperson to sell a customer something in one department and then refer that customer to a salesperson in another department. The salespeople always wrapped the goods sold, and, on sales of not over 50 cents, made their own change from a single cash register on the selling floor. For sales of more than 50 cents, change was made by the cashier, an overhead cash-carrier system with four stations being used. The bookkeeper had charge of accounts receivable, accounts

payable, and of all the books except the private general ledger, which was handled by the proprietors themselves.

At the beginning of the present year, the proprietors decided to eliminate the accounting by departments. By so doing, the paper work was reduced enough so that the bookkeeper might be dispensed with, and her work turned over to the cashier who would be able to handle her bookeeping work between sales. The salary of the bookkeeper had been $20.77 a week, and she had had the privilege of buying any items in the store for personal use at a reduction of 10% from the retail price. It was felt that the statistics by departments which were secured under the old plan were not worth to the management the cost of this additional employee. An alternative plan, which was rejected on the ground of excessive cost, would have provided a cash register in each department and the discontinuance of the central cashier system.

Question

Did the proprietors of this business adopt the most practical plan?

Merchandise 10

Palmer's Specialty Store—Inspection System of a Department Store

Palmer's Specialty Store, handling women's wearing apparel, has an annual sales volume of $357,000, and employs 26 saleswomen.

Although the retail method of inventory is in use, a general laxity in the organization is the cause of many mistakes, resulting both in stock shortages and in lost sales; for example, the receiving force often O. K.'s an invoice which is short certain merchandise, or the employees in the marking room frequently leave off an invoice number required in checking, or make mistakes in the marking. Buyers who find that they are

running short on certain lines give special orders to manufacturers for merchandise which is delivered to their departments direct by special delivery messengers without going through the receiving or marking rooms. Salespeople frequently make mistakes in their sales slips and records so that stock shortages often occur. Many of these people are valuable employees, and because of their training and personal acquaintance with a large following of customers it is not desirable to discharge them.

Mr. James McPherson, who has had a number of years' experience in the development of scientific management in factories and industrial enterprises, has been called in for a conference by the Board of Directors. Mr. McPherson has spent a week in the store analyzing the situation and he suggests that frequent inspections should be made by the store executives to check up the mistakes made by subordinates. These mistakes should be entered on individual record cards and the employees made to acknowledge their errors by signing their names opposite each mistake. He also suggests that the auditing department should make an inspection of each section of the store at least once a week at irregular intervals and that its report should be sent to the controller for proper action. Two or three particularly delinquent employees should be discharged as a warning to the others. Mr. McPherson also believes that a 5% bonus should be paid for satisfactory work and that a system of fines or reductions in pay should be instituted for repeated errors.

Questions

1. What are the advantages of a system of store inspection?
2. Is it probable that such a system will work satisfactorily in the present case?
3. Is it probable that a bonus system will bring practical results?
4. Are fines desirable means of eliminating errors and mistakes?
5. What action should be taken on Mr. McPherson's report?

Merchandise 11

Burbank & Hall—Want Slips

The system of merchandise control now in use by the Burbank & Hall Company, is old-fashioned. There is no advance stock plan and no advance purchasing schedule. Formal buying limits are not imposed on the buyers, who are, furthermore, not checked up on the character of their merchandise or on the lines they carry. The "Open To Buy" is decided upon from month to month in a conference between the buyer, merchandise manager, and the president of the company. The merchandise manager also checks all bills that come into the store and examines all incoming merchandise, except standard lines. He follows closely the mark-downs and mark-ups, but his supervision is of an informal character, unguided by set rules or clearly formulated policies.

In view of the absence of a buying program or stock plan and the company's policy of regarding the buyer as undisputed master in his own department, the merchandise managers consider want slips, or call slips, the most effective available check on the buyers under their supervision. A want slip is supposed to be filled out by a salesperson whenever a customer asks for an article that is not in stock; these slips go direct to the merchandise office.

The buyers have always regarded the want slip as an implied criticism on their management. Consequently, they have been extremely lax about seeing that their salespeople make out a slip whenever a customer cannot get what he wants. A few of the buyers have gone to the extreme of deliberately blocking the want slip machinery.

As a result, the duty of supervising want slips has been delegated to the floor superintendents, who are responsible, not to the buyers, but to the superintendents of the building. In spite of the fact that the floor superintendents do not take orders from the buyers, they have found it very difficult to make the sales force turn in want slips in cases where the buyer was antagonistic. For instance, it came to the attention of the merchandise office that one of the buyers had been telling his subordinates, "Never mind what he (the floor superintendent) says to you. He is not your boss. I am your boss. He has nothing to say around here anyhow."

The only buyer who has been zealous about want slips is the shoe buyer, who has a tendency to buy too much and is, therefore, frequently overstocked. The large number of want slips emanating from his department are used by this buyer as an argument against the merchandise manager, when the latter accuses him of having invested too much money in merchandise.

The Burbank & Hall store did a business of $11,233,762.91 in 1920. There are five merchandise managers, one of them the president of the company. There are 67 departments, with a buyer for each.

Question

What should the merchandise office do to make the want slips function properly?

Merchandise 12

R. A. Clayton Company—Merchandise Control—Stock Control for Articles Sold at Different Prices

Mr. R. A. Clayton operates two grocery stores in a city of 350,000. The total business for the two stores is $225,000 a year.

Mr. Clayton is confronted by the following difficulty:

Certain articles are sold for 10 cents or three for a quarter and also for 5 cents or six for a quarter. If the 10-cent article is charged at $8\frac{1}{3}$ cents or the 5-cent article at $4\frac{1}{6}$ cents, there is a considerable variation between the sales where a single article is purchased or where three for a quarter and six for a quarter are purchased. In a single day this variation often amounts to $1.50 or $2.

All goods are charged on the books at the retail price.

Question

How should these items be handled?

C. LAYOUT OF MERCHANDISE

Merchandise 13

The Perkins Department Store—Layout of Departments

The Perkins Department Store is located in a large New England city. It does a business of approximately $12,000,000 annually and appeals to high-medium and high classes of trade.

A. The women's hosiery department is now located on the fourth floor on the theory that women will go somewhat out of their way to inspect goods of this class. What are the advantages and disadvantages of such a policy?

B. This store has a large lot of women's untrimmed hats to be sold at very low prices. It is planned to put these on a large table in order that the customers may handle them and try them on. The untrimmed millinery department is on the sixth floor and caters to a high class of trade. On what floor and in what position on the floor should the untrimmed hats for the special sale be placed?

C. The Perkins store has an exceptionally attractive line of Christmas cards. These are among the first articles in demand when the Christmas shopping season commences, and trade in them continues up to the day before Christmas. In what location, on what floor should they be placed?

D. The Perkins Company has not heretofore handled men's furnishings, but is now investigating the possibility of establishing such a department. Men's ready-to-wear and custom-tailored clothing has been sold on the second floor. In studying the problem the company has found that there is no uniformity in the way in which other department stores locate their men's furnishings department. In one case this department is in a separate building; in a prominent New York store men's furnishings are on the ninth floor.

Question

Where should the Perkins Company locate its men's furnishings department?

Merchandise 14

Robertson Company—Layout of Department Store

Because of the rapid increase in the sales volume of the Robertson store, the directors decided that plans must be laid for the future expansion of the business. For this reason, they purchased an entire city block near the center of the shopping district about two blocks away from their own establishment. The leases on a number of the buildings located in this block were continued, as the directors did not care to expand their store more quickly than the normal growth of business would warrant. The leases of the stores which occupied the most desirable half of the block, however, were terminated, and the buildings torn down to make room for the new Robertson building.

This new building has just been completed, and the decorators are now busy adding the finishing touches to the woodwork. The building is on the southwest corner of the block and has three entrances, one on the corner and one on each of the two streets. The elevators are located in banks along the dead walls on the north and east, and there is a stairway near each bank of elevators. An escalator located just inside of the east entrance carries people to the second floor, and thus relieves the elevators and stairway of a certain amount of congestion.

This building is about 125 feet wide by 225 feet long and has eight floors and a basement. The latter has already been laid out as an automatic bargain basement, which will be operated under an organization different from that of the main store, although it is owned by the same firm. The departments that the Roberston Company intends to locate on the eight floors of its new building are listed below:

Women's Kid Gloves
Glove Cleaning and Repairing
Junior Gloves
Fabric Gloves
Neckwear, Linen Collars, Ties, etc.
Women's Neckwear over 50 cents
Marabouts, Scarfs and Ruffs
Neckwear Manufacturing
Women's Regular Cotton Hosiery
Silk Hosiery
Infants, Children's and Misses' Hosiery
Veilings
Miscellaneous Jewelry
Watches
Jewelry Repairs

Gold Jewelry
Silver Novelties
Yarn Department
Leather Novelties, Purses, etc.
Bags
Belts and Beltings
Gift Shop
Christmas Cards
Stationery
Umbrellas, Parasols and Canes
Toilet Goods
Women's Handkerchiefs
Flowers
Garment Cleansing
Women's Untrimmed Millinery
Artificial Flowers
Women's Florentine Silk Underwear
Women's Union Suits
Vests, Bands, Pants and Tights
Misses' and Children's Knit Underwear
Men's Hats and Caps
Bags and Novelties
Men's Underwear and Hosiery
Men's Neckwear
Men's Collars, Handkerchiefs and Jewelry
Men's Gloves
Men's Shirts
Men's Sweaters
Boys' Furnishings
Men's Suits
Men's Formal Dress Suits
Men's Overcoats
Men's Specialty Clothes
Men's Furs
Custom Tailoring
Athletic Goods
Flags
Boys' Clothing
Students' Clothing
Men's Shoes
Boys' Shoes
Boys' and Children's Hats and Caps
Manicuring and Hairdressing
Hair Goods
Information Bureau
Men's Barber Shop
Boys' Barber Shop
Cigars
Toilet Goods
Shoe Shining Parlor
Shoe Repairing
Chiropodist
Restaurant
Corsets and Corset Waists
Brassieres and Accessories
Imported Muslin Underwear
Domestic Muslin Underwear
Extra Size Muslin Underwear
Domestic Silk Underwear
Women's Petticoats
Bath Robes and Negligees
Women's House Garments
Japanese Goods
Women's Aprons
Apron Material
Maternity and Sick Room Supplies
Infants' and Children's Knit Goods
Infants' and Children's Knit Underwear and Flannels
Infants' and Children's Underwear and House Garments
Nursery Supplies and Furnishings
Toys

Books
Infants' and Children's White Dresses
Infants' and Children's Colored Dresses
Infants' and Children's Rompers
Infants' and Children's Wear Manufacture
Children's Trouser Suits
Infants' and Children's Coats
Infants' and Children's Furs
Infants' and Children's Millinery
Infants' and Children's Shoes
Misses' and Girls' Underwaists and Corsets
Misses' Suits
Misses' Suit Material
Misses' M.M. Dresses to $12.50 inclusive
Misses' Dresses $13.50 and above
Misses' Porch and House Dresses $1 to $5.85 inclusive
Dress Material
Misses' Coats
Misses' Raincoats
Misses' Coat Manufacture
Misses' Skirts
Girls' Coats
Girls' Dresses
Girls' Sailor Suits and Wool Dresses
Girls' Dress Manufacture
Misses' and Girls' Waists
Misses' Sweaters
Girls' Sweaters
Misses' Underwear
Misses' and Girls' Petticoats, Aprons and House Garments
Bloomer Material
Girls' Underwear
Misses' and Girls' Shoes and Slippers
Misses' and Girls' Millinery
Women's Suits under $40
Women's Suit Material
Women's Suits over $40
Khaki Material
Women's Coats
Women's Raincoats
Women's Coat and Raincoat Manufacture
Women's Skirts
Women's Skirt Material
Silk Waists
Cotton and Wool Waists
Sweaters, Steamer Rugs, Shawls
French Waists
Women's Shoes and Slippers
Women's Costumes
Women's Costume Manufacture
Women's Extra Size Dresses
Women's Dresses
Machine Made Dresses $1 to $3.95 inclusive
Machine Made Dresses $5 to $9.50 inclusive
Maids' and Nurses' Uniforms
Machine Made Cotton Dresses $8 to $12.50 inclusive
Machine Made Dresses $9.50 to $12.50 inclusive
Machine Made Dress Material
Silk and Cloth Dresses $8 to $14
Cotton and Lingerie Dresses $8 to $14
Women's Working Garments
Women's Small Furs
Fur Coats
Storage and Remodeling
Women's Fur Material
Women's Untrimmed Millinery
Women's Trimmed Millinery
Women's Millinery Manufacture

Bathing Suits
Alteration Room
Men's Bushelling
Administrative Offices
Employees' Cafeteria
Restrooms

Question

On what floor should each department be located?

Merchandise 15

Porter Company—Layout—Bargain Basement

At present the Porter Company is operating its basement upon a bargain policy. Merchandise which fails to sell in the main store is sometimes sold to the basement buyers. Manufacturers' bankruptcy auctions, fire sales, and mill remnant sales are frequented by the basement buyers who try to secure any kind of dry goods or ready-to-wear apparel which can be offered to the public at real bargain prices. Often the merchandise handled is in broken lots, with but few of the sizes for which there is the greatest demand.

In the past, it has been the policy of the Company to dump any unused equipment into the basement. As a result of this practice, the tables and counters of this section of the store are of different heights, sizes, and styles. Old glass showcases are used for the display of shirts, hats, and caps. Some goods are displayed in glassed-in shelves which were discarded by the women's millinery shop when new fixtures were installed. In other sections of the store, the merchandise is piled on unfinished shelves made of ordinary pine boards or is piled on the floor under the tables, and the counters and tables are not arranged in any particular order.

The proprietors of the Porter Store have decided that they should equip the basement with new fixtures, if they are to make a real success of this part of their business. They are uncertain, however, as to just what type of tables, counters, or display cases should be purchased for the basement. They are anxious to avoid a large outlay of capital in making this

change, but they realize that even customers who are bargain seekers appreciate orderliness and neatness in the display of merchandise.

This basement if 83 feet wide by 115 feet long and is lighted by outside windows at each end. A stairway is located about the center of each end, but no elevator service is available for basement customers. The Porter Company has no reserve stock-rooms, but places all merchandise on sale as soon as it is received in the store.

At present the following departments are operated by the bargain basement without any particular scheme of layout:

Misses' Suits
Women's Suits
Misses' Coats
Women's Coats
Bathing Suits
Women's Skirts
Piece Goods
Dresses to $14.75
Dress Materials
Women's Dresses, over $14.75
Misses' and Children's Millinery
Women's Furs
Material
Girls' Dresses
Girls' Coats
Waists
Silk Underwear
Muslin Underwear
Dresses to $4.75
Infants' Furnishings
Corsets
House Garments
Petticoats
Handkerchiefs
Sweaters
Women's and Children's Gloves
Men's Furnishings
Men's Material
Men's Clothing
Boys' Clothing
Women's and Children's Hosiery and Underwear
Men's Gloves
Men's Hats
Luggage
Men's Shoes
Boys' Shoes
Women's Millinery
Untrimmed Millinery
Neckwear, Veils and Belts
Neckwear Manufacturing
Jewelry, Leather Goods, etc.
Umbrellas and Parasols
Women's and Children's Shoes
Toys and Dolls
Books
Talking Machines, Skates, etc.
Soda Fountain

Questions

1. What type of equipment should the Porter Company purchase for its bargain basement?
2. Where should each department be located?

Merchandise 16

The Guild Department Store—Bargain Counters

The Guild Department Store, in a New England city of 85,000 population is faced with the problem of reducing its rate of operating expense in order to show a profit. Competition is keen, and because of this fact it has been inadvisable to increase the amount of mark-up although the percentage of operating cost has increased in the past three years. A new manager has recently been secured from one of the large department stores in Montreal. After studying the conditions in the Guild Store for several weeks, he has become convinced that one of the chief sources of the high rate of expense is the large sales force which is occupied fully only during the rush hours. He has, therefore, discharged 16 of the most inefficient salespeople and secured in their stead high school girls and married women who work but part time, during the rush hours of the day.

The new manager has also eliminated all reserve stockrooms, requiring the buyers to purchase their merchandise on a hand-to-mouth basis. The extra space gained by this step has been utilized for the expansion of the selling departments. The ribbon department and art goods section of the store formerly occupied two full-sized show cases, two counters, and the accompanying amount of shelf space. It was found that the amount of space used by these two departments could be cut in half, and the extra room used for the expansion of the waist department.

These changes have reduced operating expenses to such an extent that the deficit of the past year has been wiped out and a slight profit for the first six months of the present year has been secured.

On the main floor the counters are placed end to end, forming aisles which lead from the front to the rear of the store. The manager has found that between the counters and the display shelves in the space where the salespeople stand, there is 10 inches more room than is required. If this waste space is done away with by moving the counter and shelves away from the center aisle towards the sides of the room, the main aisle can be made wide enough so that another row of counters can be installed.

The merchandise manager has suggested that it would be a good idea to place six tables in this aisle on which slow-moving stock could be sold as bargains. The merchandise manager points out that if goods are placed on these bargain counters at 9 o'clock in the morning and customers fail to buy in substantial quantities by noon these articles can be removed and other slow-moving merchandise substituted. In case the customers do not appear to be interested in buying this second lot of goods by 3 o'clock in the afternoon, a third lot can be substituted. The merchandise manager is confident that these six tables will dispose of at least $600 worth of slow-moving merchandise each week.

The buyers of the women's undergarments, hosiery, and toilet goods departments are opposed to this plan, as they are anxious to secure this additional space for the expansion of their departments. They maintain that bargain tables injure the prestige of a store which has a reputation for handling high- and medium-priced merchandise.

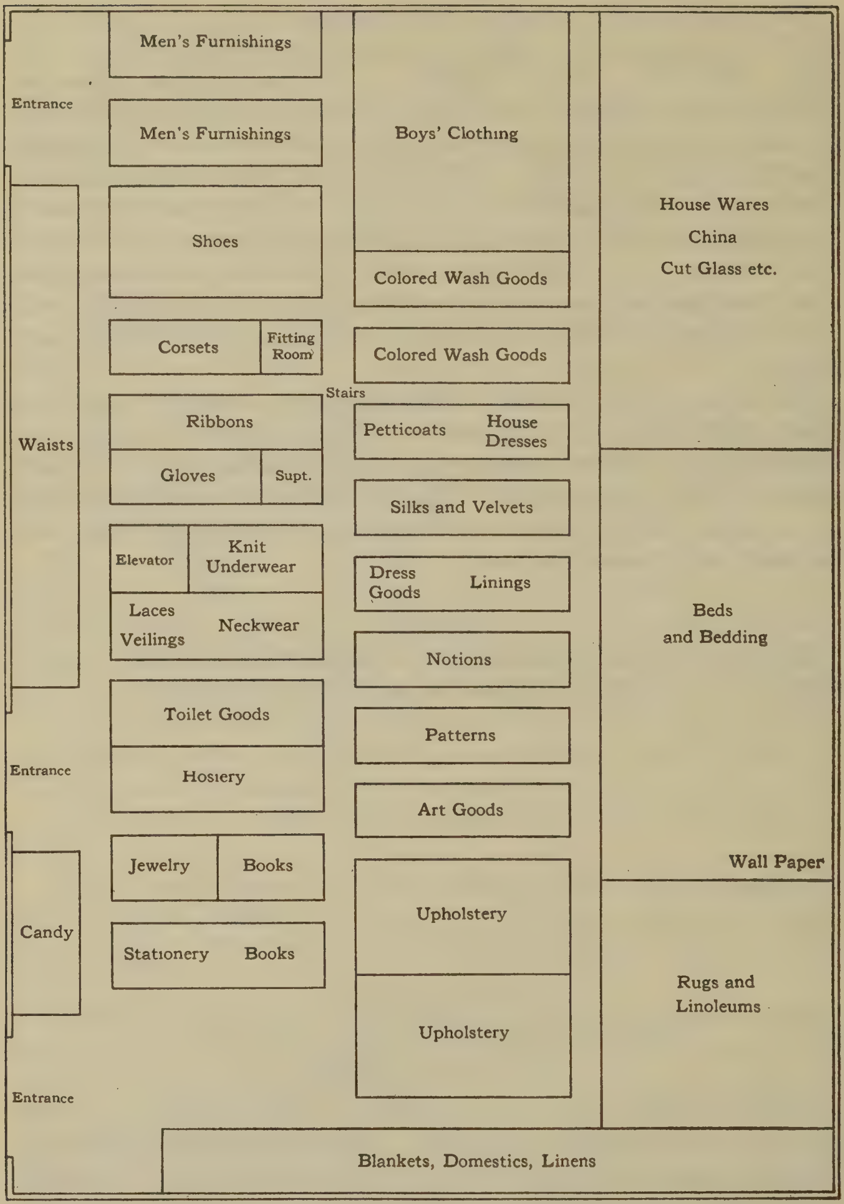
Question

Would it be advisable for the manager of the Guild Department Store to install bargain tables on the main floor?

Merchandise 17

Miller, Perkins & Jones—Layout of Department Store

Miller, Perkins and Jones operate a department store in a city of about 53,000 population, within 30 miles of Chicago. This firm has a yearly sales volume of about $1,300,000. Because of its proximity to Chicago, this store makes no attempt to carry high-priced merchandise, but depends mainly for its success upon the sales of medium-priced goods.



FORM No. 45. Miller, Perkins and Jones—Chart of First Floor Layout

The main street of the city crosses the interurban line to Chicago at right angles. The establishment of Miller, Perkins & Jones, is to be found on the main street in the center of the shopping district, about two blocks from the tracks of the electric line. The Company occupies the first two floors of a three-story building. Real estate, brokers', doctors', and lawyers' offices are located on the top floor, and the basement is reserved by the store for shipping, receiving and marking, and stockrooms. On the second floor, near the front of the building, are the millinery, coat, suit, dress, and fur departments. Immediately back of these are the cotton underwear and infants' departments. The service departments, offices, toilets, manicure shops, first-aid rooms and restrooms are located in the rear. The first floor is laid out according to Form 45 which appears on page 372.

Recently a new general manager, Mr. Wharton, has been secured to build up the trade of Miller, Perkins & Jones. Mr. Wharton is not entirely satisfied with the present layout of the store. It has occurred to him that possibly sales would be increased if display tables were placed near the main entrance for the display of goods from departments located at the side of the store. The merchandise on these tables would be changed from day to day, or week to week in order to permit the featuring of merchandise from other departments of the store. By this arrangement no one department would be given all the advantages of a location near the door, but this valuable display space would be used for the good of the whole store. One of the managers thinks that several departments have been in their present locations long enough and that a general "shift of scenery" might help the whole store.

Question

What changes would it be advisable for Mr. Wharton to make in the layout of the Miller, Perkins & Jones Store?

Merchandise 18

Earnshaw Grocery Company—Standardized Layout in Retail Grocery Chain

The managers of the Earnshaw Grocery Chain are desirous of developing a standardized system of layout for their stores. By such a system they hope to save time in taking inventories and to make sure that the goods in one store are as well displayed as in another.

In locating each one of its 32 stores, the Earnshaw Grocery Company has tried to select sites which can be reached by most of the people in any trading community with the least effort, discomfort, and inconvenience. Where possible, the stores are located in the vicinity of, or adjacent to, other grocery chain stores, since a group of chain stores tends to build up a trading center which attracts a greater number of people than would be the case if competing chain stores were located some distance apart.

All the stores are painted a bright green in order to make them easily distinguishable. The store sign is usually hung directly above the entrance. Some of the stores have outside lighting arrangements, while others show no lights except those in their windows. Some of the stores have signs placed so low on their windows that they obstruct the view of the display from the outside. Other stores have two sets of signs on one pane of glass, which gives a crowded appearance and detracts from the display in the window. There has been a lack of uniformity in the window displays, even though the same articles have been used in the windows.

The average length of these stores is 35 feet and the width is 22 feet. Ceilings vary in height from a little over 8 feet to fully twice that height, the average store, however, has a 12- or 14-foot ceiling. The walls are painted yellow, gray, or red, or even left unpainted.

Some of the store managers leave surplus merchandise lying about the floor of the main room, and others keep this extra merchandise in the rear of the store, but no rule in this respect is enforced. Some of the stores have a long counter on the right-hand side of the store near the wall, and a main delivery counter across the rear. Others have counters set out from the

wall about three feet on three sides of the room with two or three openings for the passageway of clerks. Refrigerators for butter, eggs, cheese, bacon, and ham are usually placed in the rear of the store.

Some of the counters are but 6 feet in length, while others vary from 14 to 24 feet. Counters in use in one store frequently are neither of the same height or width. Often the counters are covered with displays of merchandise and customers are forced to trade in one or two restricted areas. Bread frequently is left on the counters, and although many of the stores are provided with cheese cases, they are seldom used.

Some of the stores have two shelves along the wall below the counter level, and four or five above this height. These shelves vary in depth from 8 to 24 inches. In many instances these display shelves are used for the storage of surplus goods, and seldom does the store manager dress up his shelves in order to make a good display.

No attempt has been made to standardize the location of the merchandise about the store, with the result that in some instances the fastest moving lines have been placed at some distance from the cash register and the salesperson must take a number of additional steps to reach them in serving his customer. Furthermore, it is often found that the fastest moving lines are widely separated from each other. Frequently the goods on shelves are interspersed with displays, and, in the majority of the stores, colored cards and display signs are found on top of the refrigerators and on the top row of shelves. Some stores have an uncovered table near the entrance on which to display goods that are on special sale. Other store managers refuse to use such equipment on the ground that an uncovered table provokes stealing and "is more trouble than it is worth." In certain of the larger stores all money is handled by the cashier, who has a desk in the middle of the floor. In the smaller stores, however, a cash register is used on which the manager and his clerks ring up their sales.

The reserve stockroom in the rear of each store is not kept in any particular order. Some stores have an excellent arrangement of shelves and bins in which to store surplus goods, others simply dump this extra merchandise on the floor or pile it in the corner.

The Earnshaw Company carries the usual line of chain-store groceries such as butter, lard, bacon, ham, cheese, eggs, bread, cakes, cookies, oranges and bananas, several different kinds of breakfast foods, gelatine, pastry and bread flour, canned vegetables, fruits, fish, and meats, baking powder, spices, flavoring extracts, matches, condensed milk, salad dressing, soap, ammonia, cleaning powders, starch, blueing, washing powders, scrub brushes, mops, brooms, sugar, tea, coffee, cocoa, jams, ketchups, and vinegar. Highly perishable products such as fresh fruits, vegetables, and meats, are not carried by this chain of stores.

When the managers of the stores were asked to designate the three fastest moving lines in their stores, all of them mentioned condensed milk; 21 included soap on the list; 19, butter and eggs; 18, prepared cereals; 6, jams and ketchups, salad dressings, and coffee.

Question

What standardized layout system should be recommended for use in the Earnshaw Grocery Stores?

Merchandise 19

Howland Company—Organization, Location, and Layout of 5 and 10 Cent Stores

The Howland Company has standardized the layout and equipment of its 5 and 10 cent stores. A large green sign with the name of the company in white letters is always hung across the front of each store, and the doorways are set in from the street 6 or 8 feet so that the windows extend from about 2 feet above the sidewalk to the top of the first story, and panes of curved glass are used in the corners in order to give passersby an unrestricted view of the displays.

The windows of the Howland stores are always crowded with merchandise. Along the back and side walls, and along the tops of the windows, hooks are set into the woodwork on which to hang the smaller articles. Glass stands and shelves are used for displaying special articles on sale, and the floors of the windows are covered with merchandise. All articles on display are tagged with the price in large block-printed figures an inch and a half high.

In the interior of the stores the walls, ceilings, and supporting columns are painted white and the counters, tables and shelves are stained a dark brown. Candy, cookies, and jewelry are sold from glass display cases near the entrance. The other merchandise is displayed on trays on the tables, each tray being tagged with the price of the article it contains or tags being placed on the shallow shelves and display cases which line the walls. The tables are placed lengthwise along the sides of the store, about 30 inches from the wall, and are arranged in oblongs throughout the rest of the floor area, narrow aisles being left between them. In the center of the oblongs there is standing space for the clerk who wraps up the merchandise and rings up the sales on a cash register.

According to the standard layout plan of the Howland Company, picture post-cards and stationery are displayed on the forward counters. Near the candy and jewelry cases in the front half of the store are the toilet goods, novelties, toys, and notions; in the other half, hardware, carpenters' tools, kitchenware, cutlery, phonograph records, and sheet music.

In locating its 5 and 10 cent stores, the Howland Company attempts to secure a site in the shopping district. For example, in one large eastern city it has its store directly across the street from the largest department store in the state. In several other cities and towns it has its stores between two large department stores. In all cases the stores are well inside the limits of the shopping district.

Questions

1. What are the factors for and against the Howland method of locating its stores?

2. What are the advantages and disadvantages of its system of layout?

Merchandise 20

N. E. Conway and Company, Inc.—Use of Attractions in Layout

The store of N. E. Conway and Company, Inc., is one of the important department stores in the F Street shopping district of Washington, D. C. The store has built up an enviable reputation and has a considerable volume of business in general department store lines. It has always been a firm believer in the theory of providing, in the store, non-merchandise attractions. Furthermore, it holds that these attractions should be so located with reference to merchandise departments, as to assist in drawing customers to these departments. For example, on the first floor, adjacent to its toilet articles department, the store has placed its manicure and beauty parlors. On the second floor, at the rear and at the opposite side of the men's department from the elevator, the store has placed the office of the official who in Washington issues automobile licenses for Maryland. In view of the fact that a large portion of the Washington cars must carry Maryland licenses as well as District of Columbia licenses, and in view of the fact that this office is the only place in Washington where the Maryland license can be secured, this attraction brings a large number of men into the store every year. Conway's believes in the value of this office sufficiently to give the space free and pay the agent a considerable amount in addition.

On the third floor are the women's and children's departments. At the front of the store the management has given over a prominent corner to the women's restroom. This room is so located that, in coming to it from the elevators, customers must pass the best display space for gowns and dresses on the floor. At the opposite side of the building, towards the rear, are the infants' and children's departments, and, beyond these, a children's barber shop which is clearly superior to any in the city. On the fourth floor, along side of the trunk and bag department, the store has placed a "General Information" bureau.

Thus the store has placed some attraction for customers on each one of its selling floors and has so placed these attractions that they will assist the elevators in securing a circulation of customers through the store and in encouraging customers to move past displays.

A few blocks west of the Conway store, is Danbury's, a men's and women's specialty store with lines of slightly higher quality than Conway's. This store is nearer the New Willard and the Shoreham Hotels, is convenient to the New York Avenue offices, and is one of the stores near to the Treasury Department, the Treasury Department Annex, the War Risk Insurance offices, and the State, War, and Navy Departments. The management believes that this convenient location has been a large factor in establishing the store's splendid custom among men and among the more highly paid women who work in these various offices. The store has not this convenience appeal for women who do not work in these offices, excepting those living on the southern ends of Connecticut Avenue and Sixteenth Street, or in the region of Thomas Circle. For a large number of the well-to-do, who live further out, the store is not more convenient than the other places in F Street. Women must come shopping by street car or motor in any event, and it is just as easy to go on three blocks farther.

Danbury's has always had a reputation for substantial quality and conservative style. It has neither sought nor achieved the position of the ultra-fashionable, extremely high-priced shop. The store has advertised conservatively, has fitted its store, both inside and outside, tastefully, but practicably, and has maintained an atmosphere of calm confidence. There have been no events to shake this confidence or to indicate that it is not justified.

The store occupies three floors. On the first are men's furnishings, the more business-like men's clothing, men's shoes, and, well separated from these departments, the ladies' convenience goods. Men's better clothing, imported lines, and sporting clothing (except when they are being featured) are carried on the second floor, as are all the boys' goods. The women's and girls' dresses, gowns, suits, underwear, and corsets are placed with the infants' and children's wear on the third floor.

Question

Should Danbury's introduce, in its store, attractions after the method of Conway's?

(*a*) If so, what should be used as attractions?

Merchandise 21

The Prescott-Jennings Company—Luncheon and Tea Room

In one of the large cities in Ohio the main retail district centered for a long period of years around the Public Square. This section was centrally located with respect to transportation lines, both steam and electric.

It was about midway between the two principal residential sections of the city; it was not far from the lake front; and it was the location of the post office, city hall, and county administrative buildings.

In 1873, the Prescott, Jennings Company opened a small clothing store on the side of Public Square nearest the lake front. This business expanded gradually into a general apparel store. The original store building was several times enlarged, but when the annual volume of business passed the $10,000,000 mark, which occurred in 1910, it became obvious that the store would have to move to a site where there was more room.

During the period from 1890 to 1910, the character of the business had changed gradually. The selling appeal, which had previously been based on price, was now based on quality, and every effort was made to build up the store's reputation for service. By 1910, the Prescott, Jennings Company store enjoyed the patronage of a somewhat more discriminating class of shoppers than most of its competitors around Public Square. After studying the location problem for some time, the president of the Prescott, Jennings Company decided on a bold step. He purchased property ten blocks out on Northwestern Avenue, which runs diagonally southeast from the Public Square. There was only one other store near the site which he selected, and that was a furniture and house furnishings business, but it was the opinion of the president that changing conditions in transportation and the increasing use of automobiles would in a few years make that section along Northwestern Avenue one of the principal shopping districts of the city.

The Prescott, Jenning Company erected a new store building at the corner of Iroquois Road and Northwestern Avenue, diagonally across the street from the Harlow Furniture Company. On the first floor of their new store building the following goods were carried:

Gloves	Men's Furnishings	Trimmings
Jewelry	Hosiery	Toilet Goods
Shell Goods	Ribbons	Handkerchiefs
Leather Goods	Veilings	Notions
Umbrellas and Parasols	Laces	Neckwear
	Embroideries	Stationery

Second Floor

Boys' Clothing	Wash Goods	Art Section
Women's, Girls', and Boys' Shoes	Linens	Blankets and Comfortables
Silks, Velvets	Linings	Steamer Rugs
Dress Goods	Art Linens	Semi-fitted Wear
	Patterns	

Third Floor

Muslin Underwear—Domestic and French			Silk Petticoats
Negligees	Infants' Wear	Corsets	Knit Underwear

Fourth Floor

Waists   Millinery   Misses' and Children's Wear   Restroom

Fifth Floor

Coats, Suits, and Skirts   Costumes and Dresses   Furs

Sixth Floor

Oriental Rugs   Curtains   Draperies   Art Wares

The eighth floor of the store was given over to the general offices; the ninth floor was used by the personnel department and for reserve stock; and on the tenth floor were the manufacturing and alteration departments. The seventh floor was used for a luncheon and tea room. A bargain basement was opened after the main store building had been in use about a year.

The growth of the retail district near the Prescott-Jennings Company store proved that the judgment of the president had been correct. A number of small specialty shops almost immediately followed this company's lead and opened stores nearby along Northwestern Avenue. In 1912 a department store moved to a site directly across the street from the Prescott-Jennings Company, and a new and luxurious hotel was built one block to the northwest. By 1916 two more department stores, a cloak and suit house, three jewelry stores, and two moving picture theaters had been established along Northwestern

Avenue, within a radius of three blocks from the Prescott-Jennings store.

Shortly after moving, the Prescott-Jennings Company had considered it advisable to put in a furniture and house furnishing department to compete with the Harlow Company across the street. This department had been placed on the sixth floor, with the result that Oriental rugs, curtains, draperies, and art wares had been crowded down to the fifth floor.

The luncheon and tea room had been decided on in the first place because the executives knew that they must offer the public every inducement to come to that section of the city to trade. By not charging any overhead expense to the luncheon and tea room, the store was able to make it show a very small profit up to 1914. From then on it showed a loss. This loss was not due to any falling off in the patronage. On the contrary the patronage increased. By 1916 the loss from the luncheon and tea room was large enough to cause the executives some worry. When the question came up for discussion, the directors were divided into two groups. One group favored giving up the luncheon and tea room entirely. The other group argued that since the store intended to keep on maintaining an employees' restaurant on the ninth floor, it was advisable to keep on with the luncheon and tea room. In order to make it show a profit they proposed to alter one of the store entrances slightly so that an outside door could be opened to an express elevator running to the seventh floor. Then dinner could be served in the luncheon and tea room. These executives also urged that the expense of altering the seventh floor for use as a selling department would be considerably more than the loss shown by the luncheon and tea room over a period of two or three years.

Questions

1. What action should the directors of the Prescott-Jennings Company department store have taken in regard to the luncheon and tea room?

2. In case they had decided to abandon the luncheon and tea room, what use should have been made of the seventh floor?

D. GENERAL MERCHANDISE POLICIES

Merchandise 22

The Hoyt Specialty Store—Exclusive Agency

The Hoyt Specialty Store, in a large manufacturing city within a few miles of Boston, has a reputation for carrying women's ready-to-wear apparel of medium price. This store has an annual sales volume of about $437,000, and up to the present time has not handled nationally advertised lines, nor has it had an exclusive agency of any kind. Recently, however, the merchandise manager received a visit from the New York representative of a well-known manufacturer of women's and misses' suits. This representative urged the merchandise manager to sign a contract with the manufacturer for an exclusive agency, asserting that such a step would increase the sales volume of the store. The arguments of the representative were substantially as follows:

By means of national advertising the manufacturer of this brand of women's and misses' suits has already created a demand for his product. The Hoyt store, by becoming the exclusive agent for this brand of merchandise, would capitalize the good will of the brand name and would add to its prestige. The manufacturer would furnish the Hoyt Store free cut service and assistance in writing copy, and would defray half the cost of advertising his brand. Furthermore, he would extend to his agencies special favors which would assist them in building up the volume of sales; for example, he would make up a special line of suits, according to specifications laid down by the Hoyt store, in order to satisfy the particular demands of the store's customers. This special line of suits would be sold under the manufacturer's brand name. The Hoyt store would also receive assistance, if desired, from the manufacturer's expert staff of window trimmers, and special display fixtures would be offered at small cost.

The merchandise manager has always been opposed to exclusive agencies on the ground that they usually permit only a low percentage of mark-up and hence the amount of profit to be derived is not as much as on other lines. Furthermore, it has always seemed to this manager that after his store had built up

a demand for the merchandise in that locality the exclusive agency might, perhaps, be taken away from him and given to a larger store with greater selling volume. He has never heard of such a case, however, in connection with the brand of merchandise under consideration. The exclusive agency contract prohibits the store from carrying competing brands of nationally advertised merchandise, and requires it to furnish a certain amount of alteration and repair service, and to carry a complete line of these goods.

The merchandise manager fears that there is some danger of not being able to secure these goods in case of strike at the factory and that the business of his store would, accordingly, be injured. He also fears that in trying to standardize his product the manufacturer may develop a line of garments which will lack enough individuality and style novelty to satisfy the customers of the Hoyt store.

Question

Should the merchandise manager of the Hoyt Specialty Store accept the proposed exclusive agency for women's and misses' suits?

Merchandise 23

The Lovett Department Store—Policy of Handling Nationally Advertised Merchandise

The Lovett Department Store which has a reputation for carrying medium-priced merchandise of good quality, as a general rule, refuses to handle nationally advertised lines. It appears to the merchandise manager that the manufacturers of these goods use so much money in national advertising that they must have but little working capital left to put into quality. He points out that one of the best known national advertisers of men's shirts and collars has never mentioned the quality of his

products in a single advertisement. The merchandise manager assumes that the persistence of national advertisers influences people to buy a brand of merchandise regardless of its quality, and thus makes it possible for the manufacturer to build up a sort of practical monopoly. Having established his control the manufacturer of a nationally advertised line refuses to give a department store liberal enough terms to permit him to make a profit on this brand of merchandise. This merchandise manager refuses, therefore, to permit his store to carry nationally advertised lines of merchandise whenever it is possible to avoid doing so.

National advertisers offer the following arguments to induce stores to handle their goods. They maintain that a store does not need as liberal terms on their lines of merchandise as would be necessary if the goods were not advertised, since a demand has already been created and the store can save money on its advertising appropriation. They assert that although a lower percentage of profit is secured on the sale of nationally advertised goods, the rate of stock-turn is greater than would be the case were unknown brands carried in stock, and thus selling expense is reduced. In opening up new departments they state that it is easier to carry brands for which there is already a demand, since a certain amount of trade is to be assured.

The buyers in the men's, women's, and misses' departments of the Lovett store feel keenly the competition of other specialty stores in the city which carry nationally advertised goods. They are anxious, therefore, to induce their merchandise manager to change his present policy with regard to these goods.

Question

Under what conditions should the Lovett store carry nationally advertised lines of merchandise?

Merchandise 24

Foss Department Store—Developing Own Trade-Mark

The Foss Department Store attempts to identify all its merchandise in some way with the name of the store. In the case of suits, coats, sweaters, dresses, and undergarments, the name of the company is embroidered on a label which is sewed inside the garment. Hats, caps, neckties, and shirts are labelled in the same manner whether or not they already carry the manufacturers' brand name, or trade-mark. Women's waists, neckwear, handkerchiefs, and similar articles, however, cannot be marked satisfactorily in this manner; because of the transparency of the material the label would be visible when the article was used. Accordingly this merchandise is wrapped in holders, boxes, papers, or envelops which bear the firm's characteristic signature.

The Foss store also carries unbranded merchandise, as the directors consider that this policy renders the store less dependent upon the whims of the manufacturers of trade-marked lines.

A buyers' committee has proposed that the store adopt a trade-mark or brand of its own in addition to the present label and that, where possible, branded lines of merchandise should be developed. It is suggested that this scheme would be possible in such lines as shoes, corsets, hosiery, and women's dresses. Since the store is primarily a buying and selling organization and not a manufacturing establishment, the committee suggests that contracts should be signed with manufacturers who would agree to produce a line of goods bearing the concern's private brand. In support of their scheme the buyers' committee points out the success of some of the other large department stores in establishing private brands of ladies' corsets, coats, and shoes. It seems probable to them that if it is advisable for a manufacturer to establish his brand on the merchandise, it is quite worth while for a department store to establish its own trade-marked lines.

In the past the board of directors have always opposed the policy of allowing the Foss store to establish its own branded lines of merchandise for the following reasons: It would be difficult to hold the manufacturer to a high standard of quality at a price which would allow the store a reasonable profit. If a

manufacturer should become dissatisfied and throw up his contract, the store would be unable to furnish its customers with its branded line of merchandise; thus the good-will of the Foss store would be injured. Furthermore, in the case of women's suits, coats, or dresses, to undertake the manufacture of a branded line of goods would require a staff of highly skilled designers, and the store would have to assume the burden of style risk in catering to the demands of its customers.

Questions

1. Should the Foss Department Store establish its own trademark?
2. If so, what lines of merchandise would it be advisable to develop under the store's private brands?

Merchandise 25

The Bennett Department Store—Guarantees

The Bennett Department Store located in a large city in the Middle West has a reputation among its customers for the high quality of the service rendered. People who enter the store are assured of courteous treatment at all times, and restrooms are provided for the convenience of customers. Notices posted in the elevators encourage customers to call at the credit office to open a charge account. The store is particularly noted for its willingness to accept returned goods under almost any condition, whether the customer's demands are reasonable or not.

In the matter of guarantees, the store has likewise adopted a broad policy. As a rule, no specific guarantee is given, but the store has a reputation for replacing any merchandise which does not prove satisfactory. In case merchandise which is guaranteed by the manufacturer proves to be unsatisfactory, the store makes a replacement or adjustment with the customer and then takes the matter up with the manufacturer. The same policy is

adhered to with regard to goods lost or damaged in shipment. As the president of the Bennett Store organization explains:

> If a customer orders a pair of white flannel trousers to be sent by express to Bar Harbor, Maine, he wants the merchandise delivered within a reasonable length of time and in serviceable condition. If the goods are defective, he does not care to take a month's time taking up the matter with the manufacturers. Likewise, if the trousers are lost or damaged in transit, the customer does not want to take a month's time to recover damages from the express company. He wants the trousers to wear while he is on his vacation, and it is up to the store to keep his good-will by furnishing him with another pair immediately and then making the necessary adjustments with the manufacturer or express company.

In the matter of selling merchandise which is not guaranteed by the manufacturer, or which is guaranteed only if used under certain conditions, the store is faced with a different problem. Lines of merchandise which come under this heading are such articles as gloves, certain brands of silk hosiery, silk shirts, and taffeta dresses. When a customer purchases a taffeta dress, for example, if she inquires as to the wearing qualities she is told that the merchandise cannot be guaranteed because the treatment of the goods in manufacture makes the silk likely to split even with the most careful handling. Frequently, in such a case, the customer buys the taffeta dress and, moreover, when the dress fails to last as long as garments made of more serviceable material, she is dissatisfied. In many instances, even though she has been told that the merchandise was not guaranteed, she returns it to the store and demands her money back. In the past the adjustment bureau has had no uniform policy in dealing with such cases.

The directors of the Bennett store realize that a standard policy should be in form, but they are at a loss to know what plan they should follow in such instances. A competitor has adopted the slogan, "The customer is always right," and consequently follows the policy of replacing all merchandise regardless of the fact that the customer may have been told that the goods were not guaranteed. The managers of the Bennett store are certain that if they should adopt such a plan they would lay the store open to abuse by its customers. On the other hand, if a customer attempts to return an article and is humiliated by having her request refused, she very likely not only discon-

tinues making purchases herself, but also influences her friends and relatives against trading at the Bennett store.

Question

What policy of replacing unsatisfactory merchandise should be followed by the Bennett Department Store?

Merchandise 26

The R. K. Halstead Company—Establishment of Temporary Branches

A great many people of wealth spend their summers along the New England coast and a few months each winter in Florida. A number of specialty stores in New York and Boston which handle high-priced merchandise have temporary branches at Palm Beach for two or three months during the winter, and at one or more of the resorts on the New England coast during the months of June, July, August, and a part of September.

The R. K. Halstead Company operates a specialty store in New York City, carrying medium- and high-priced merchandise. The managers of this store wish to increase their sales of high-priced lines as there is usually a big profit on these goods. They are thinking, therefore, of following the practice of some of the high-priced shops which maintain temporary branches during the resort seasons at Palm Beach and New England points. After a careful investigation, lasting several months, the managers have estimated that it would be necessary to maintain at least seven highly paid employees at any temporary branch that they might open. It would also be necessary for the company to pay the living expenses of these employees at the resorts where the cost of living is high. They consider, however, that a temporary branch would keep the company in touch with many of its old customers and that it would secure new customers

who might give a large part of their trade to the Halstead Company upon their return to New York.

If a temporary branch were opened at Palm Beach during the winter season, it would be necessary for the Halstead Company to maintain a complete stock of spring goods at a time when a full line of winter garments would be needed in the store in New York City. The directors have advanced the argument, however, that although the operation of this branch would require a considerable expenditure of money, it would keep the store better informed of the trend of fashion, and thereby assist the merchandise managers in placing their orders for spring delivery.

If a temporary branch were maintained for a few months at a northern summer resort, it would require an additional stock of merchandise, for complete lines would have to be shown both in the branch and the home store. It has been estimated that at least $30,000 worth of stock would have to be kept on hand in the branch shop. These conditions would be a severe handicap to the company when it attempted to close out its merchandise at the end of the summer season in August, since it would be impossible to hold a mark-down sale in the branch store without injuring its prestige with the wealthy class of customers.

The directors do not expect that such a temporary branch would show a profit, but their idea in taking such a step is to bring their store before the class of people which it is attempting to secure as customers. Any loss incurred by the branch would be charged to advertising, and in case the new venture showed a profit, this surplus would be treated as an extra advertising appropriation. There is no satisfactory method of advertising in a summer resort except by circulars, as no newspapers are published which cover all the summer colonies of any district. So many circulars are in the mail of summer residents at this time of year that it is probable that the majority of such advertising is thrown into the waste-basket unread or even unopened.

Question

Would it be advisable for the R. K. Halstead Company to open a temporary branch at a summer or winter resort?

Merchandise 27

Eggleston & Gilbert—Leased Sections

On June 1, 1921, the Board of Directors of Eggleston & Gilbert elected Mr. B. K. Burton vice-president, in charge of the merchandise office. Mr. Burton was to succeed Mr. Gilbert, one of the founders of the store, who had just died. The Eggleston & Gilbert store did a business of $10,023,467 in 1920. During the first five months of 1921 the sales aggregated $5,324,670. The appeal of the store had always been directed toward the middle and lower-middle classes of trade. In addition to the regular department store lines, such as dry goods, small wares, and ready-to-wear, the store maintained a grocery department, a meat and green vegetable section, a dairy section, a complete drug store, and an automobile accessories department.

The grocery department carried a line of staple and fancy groceries of the better qualities and bakery products produced at the store's bakery. The department had been operated at a loss consistently, but was retained because its existence made possible the leasing, to outside firms, of the dairy section and the meat and green vegetable section, the only leased sections in the store. The annual rental received from these two leased sections more than offset the annual loss in the grocery department.

It had been the general policy of the store to lease no departments. These two sections were leased solely because the nature of the goods carried made it impossible for the store to operate them itself; also they completed the grocery and provisions line carried, thus providing what the store felt to be a valuable selling appeal as well as furnishing a means for turning the grocery department deficit into a profit. This policy had been developed by Mr. Gilbert and Mr. Eggleston for the following reasons:

1. It was felt that to lease a department was an admission either of inability to manage that department successfully or of lack of capital, or both.

2. They believed that the lessee of a department would exploit the business of that department during the period of the lease, not considering the effect on other departments or the

effect on the leased department after the expiration of the lease. This attitude on the part of lessees was thought to be due to the fear that the store would refuse to renew the lease after the lessee had built up a profitable business.

3. They also believed that the management had no effective supervision in leased departments over the factors which make or destroy good-will.

Shortly after he came into office, Mr. Burton was approached by DeVere & Company, a New York firm operating a large number of leased departments handling millinery. This company desired a five-year lease of the millinery department in the Eggleston & Gilbert store. It offered an annual rental 20% greater than the net profit then yielded by the department. Mr. DeVere, for the company, cited the following advantages which the lease would bring to the store:

1. Improved style and design. The DeVere Company felt that its goods would be superior in these respects because of its New York connections, its specialization, its long experience, and its country-wide contact with demand.

2. Better workmanship, because of the skill of the workers in the DeVere plant.

3. Increased revenue from the department. Mr. De Vere stated that he was able to make the department pay a greater profit than Eggleston & Gilbert could because of the large buying power of his company and the greater efficiency in management secured by his experience and specialized knowledge.

Question

What reply should Mr. Burton have made to this offer?

MERCHANDISE 28

BROADWAY DEPARTMENT STORE—COMPENSATION FOR LEASED DEPARTMENTS

The Broadway Department Store, located in a city of 102,000 population in eastern Massachusetts, leases two departments, talking machines and sewing machines. The store has 30 owned departments, and its annual sales aggregate over $1,000,000. Five years ago the annual volume of sales was in the neighborhood of $300,000. At that time Mr. Mahady took charge of the store as general manager and assistant to the president. The progressive measures that he introduced and the work of the able assistants whom he brought into the firm are largely responsible for the increased business.

At Mr. Mahady's suggestion the Broadway Department Store joined the Bay State Department Store Association. This association was composed of 14 stores each with a yearly sales volume of from $500,000 to $1,500,000. Its original purpose was to exchange figures on costs of doing business. In 1920 the average percentages of expense to sales were as follows for the 14 stores:

Salaries—department	9.2
Salaries—general	4.2
Salaries—office	1.4
Salaries—total	14.8
Insurance	0.6
Interest	0.5
Taxes	0.2
Paper and boxes	0.5
Expenses—general	1.4
Expenses—incidental	0.2
Expenses—travel	0.5
Expenses—store	0.3
Expenses—office	0.3
Rent and charges in lieu of rent	3.8
Advertising	2.8
Freight and express	1.0
Delivery	0.4
Postage	0.1
Heat, light, and power	0.9

Window and decorating	0.2
Telephone and telegraph	0.1
Charity	0.1
Repairs	0.3
Lamson cash system	0.1
Total of expense	29.1

Beginning with January 1, 1921, Mr. Mahady put into effect a new form of contract with the lessees of his leased departments. The contract with the lessee of the talking machine department covered the following points:

1. The lessee was to use the space leased solely and exclusively for the sale of talking machines, talking machine records, supplies and other accessories, and such other merchandise as the lessor in its absolute discretion might permit the lessee to sell; and the lessor was not to sell or permit to be sold in its store, any talking machines, talking machine records, supplies, or accessories except those sold by the lessee.

2. The lessor was to furnish heat and electric light at reasonable times and in reasonable quantities, having regard to the heating and lighting of the rest of the store, but the lessee agreed that the lessor was not to be liable for neglect or failure to supply heat or light or an adequate amount thereof.

3. The fixtures in the leased space were to be installed at the expense of the lessee, but the lessee could install no fixtures, nor make any alterations, nor sub-let the space or any part thereof, nor assign its rights under the contract, nor permit anyone other than itself to transact business therein, without the written consent of the lessor.

4. The lessor was to make repairs after any damage by fire that did not occur through neglect of the lessee. If any other part of the store of the lessor were damaged by fire, the lessor could suspend the contract during the period of repairs, using for its own purposes space leased to the lessee.

5. The lessor was not to be liable for any damage or shortage of merchandise, furnishings, fixtures, or other property of the lessee however occurring, and the lessor was especially free from any liability for damage by water from leakage of pipes or sprinkler system.

6. The employees in the leased space were to be selected and recommended by the lessee, but engaged by the lessor on behalf of the lessee. Their wages were to be fixed by the lessee but paid in the first instance by the lessor in the usual and regular way in which it pays its own employees. The employees in the leased space were to be employees of the lessee, but under the supervision of the lessor, and they were to conform to all rules and regulations then in force or thereafter put in force by the lessor.

7. The lessee agreed to hold the lessor harmless from all responsibility for any act done by an employee of the lessee and against all claims or actions arising out of the actions of its employees or the carrying on of its business.

8. The business carried on in the leased space was to be the business of the lessee, but conducted in accord with the books and records of the lessor and for convenience conducted in the name of the lessor; but the lessee was to make no purchases nor any agreements in the name of the lessor. It was expressly understood and agreed that the lessee was an independent contractor doing business on its own account in the premises of the lessor and that the lessor was to be held harmless from all responsibility for any claims and demands arising against the lessee.

9. The lessee and its employees were to have access to the leased space only during the regular business hours of the lessor and at other times only with the permission of the lessor's representative.

10. The lessor granted the lessee the privilege of advertising in newspapers and other mediums of publicity in the general advertising of the lessor's store at the best rates procurable by the lessor, provided that such advertisements were approved by the lessor or its representative, and the lessee was to repay the lessor all money expended or bills incurred by the lessor for actual space used for advertising the business of the lessee. The lessee agreed to furnish copy to the advertising department of the lessor at such times as that department should direct, and the lessor was given the right to refuse to publish any advertisement of the lessee in the main store advertising if in the judgment of the lessor it was undesirable to do so for any reason.

11. The lessor agreed to furnish the lessee cash-carrier service, local telephone service, such as might be in general use in the store, 6 days of window space once in 60 days (such space to be requisitioned in writing by the lessee's department manager at least one week prior to the date of display), and such janitor service as is customary in the lessor's store.

12. The lessor agreed to make such deliveries of articles sold by the lessee as could be made with safety to the merchandise and reasonable assurance of prompt delivery with its regular delivery equipment, and the lessee agreed to deliver any and all articles which the lessor could not deliver on time or in good condition with its regular delivery equipment. No liability was to attach to the lessor for failure to deliver any article sold by the lessee or for any damage to any article sold by the lessee while that article was being delivered by the lessor. The lessee was given the right to adopt its own delivery system.

13. Settlement between the lessor and the lessee was to be monthly, on the 10th day of the month. The lessor was to retain a sum equal to 15% of the proceeds of the sales of the preceding month in the business of the lessee including sales on lease orders and on charge accounts, as well as for cash. From the remaining 85% the lessor was to deduct all sums paid for wages of employees, for advertising, or for any other purchases whatsoever in connection with the business of the lessee, including interest as hereinafter provided; and the balance thereafter remaining was to be forthwith turned over by the lessor to the lessee. It was agreed that the lessor might charge the lessee interest at the rate of 6% per annum on any uncollected lease balances, as shown by the talking machine lease account on the last day of each month, and that the amount so charged was to be deducted from the monthly settlement statement for that month. The lessor further agreed to credit the lessee with all sums collected from customers on talking machine lease accounts. The lessee was to maintain at its own expense in the department a system of bookkeeping adequate for the proper handling of its business with its customers, and the receipts along with the sales checks for all sales made were to be turned in at the end of each business day to the lessor's cashier. The lessor agreed to pay all freight and express charges and any other sundry expenses in connection

with the business of the lessee, for all of which charges proper and adequate vouchers were to be given to the lessee by the lessor.

14. If during any calendar month the moneys received by the lessor from the said business of the lessee were insufficient to cover disbursements made and incurred by the lessor as herein provided and the aforesaid 15% of the sales of the lessee's business, then the lessee was on demand to pay to the lessor on or before the 10th of the existing month, in cash, an amount equal to such deficiency.

15. If any person having a charge account with the lessor's business desired to charge merchandise sold by the lessee, the charge was to be certified and signed by a representative of the lessor in the manner in which all charge sales were certified and signed throughout the lessor's store.

16. The lessor granted to the lessee the privilege of advertising and selling talking machines on the plan of weekly and monthly payments as small as $1 a week or $3 a month. Whenever an account was judged undesirable by the lessor, the lessor was to give 30 days' notice to the lessee, and at the end of that time, if the account were not paid up or otherwise closed, the lessor was given the privilege of closing it by deducting from the current sales of the lessee the balance due after another 30 days.

17. The lessor and its representatives were given permission to enter the leased space at any time for examination or the making of repairs or alterations.

18. The remedies given in the contract to the lessor and the exercise by it of any one of them were not to be deemed exclusive, and the lessor was especially authorized to exercise any one or all of the remedies given it at the same or at different times. It was expressly understood that no consent given or waiver by the lessor of any breach by the lessee of any covenant or condition in the agreement was to operate or be construed in any manner as a waiver of the requirement for any subsequent consent to be obtained from the lessor, or of any subsequent agreement contained in the contract, any other provision to the contrary notwithstanding.

19. Nothing in the contract was in any way to be construed to constitute a co-partnership between the parties.

20. The lessee and all its employees were to conform to the general rules and regulations of the lessor's business, and in all disagreements arising out of the said business of the lessee the decision of the lessor was to be final.

21. The lessee was to insure the stock, fixtures, and fittings in the leased space at its own expense, and to pay for all workmen's compensation expense and all casualty or liability expense which was deemed necessary by the lessor for the protection of the lessor in connection with the lessee's business, but the taking out of such insurance was not to subject the lessor to any liability whatever because of anything arising out of, under, or in connection with the business of the lessee, or because of the actions of its employees.

22. Each party to the contract mutually released and discharged the other party thereto, its successors and assigns, from any and all liability whatsoever arising prior to the date of the contract.

23. The contract was to continue from the date thereof until 60 days after either party had given the other party thereto written notice that the agreement was to be terminated.

The contract with the lessee of the sewing machine department was a copy of the talking machine department contract in all its essential points.

Questions

1. What expenses are properly chargeable to leased departments?

2. Assuming that the percentages of expense listed above apply in the Broadway Department Store, will the store find this contract profitable?

Merchandise 29

Organization of Selling Department—Use of Basement

The Raphael Company in remodeling its store, has moved the shipping, receiving, marking, and reserve stockrooms, and the cashier's office from the basement to the fourth floor. It is the intention of the members of the firm to equip the basement with fixtures, counters, and display shelves so that the space can be utilized for the selling of merchandise.

In opening up the basement as additional sales space, the managers of the store are uncertain as to the policy that they should pursue. The upstairs departments are asking for more space to permit expansion. In remodeling the store, however, an additional floor already has been turned over for the use of these departments. If the basement is also used for the expansion of the present divisions of the store, the number of customers of the Raphael Company will not in all probability be increased to any substantial extent, as the store already is catering to a large part of the medium- and high-class trade of the community. In the large city on the Great Lakes, in which the Raphael Store is located, a large part of the population is made up of factory workers and other industrial employees, the demands of which the Raphael store has not as yet attempted to fill.

To secure the patronage of customers who are seeking low prices, stores in other cities have adopted a policy of carrying less expensive lines of merchandise in their basements than are handled by the upstairs departments. In carrying out this plan they are also able to compete with stores which carry cheaper classes of merchandise. The introduction of lines of low-priced merchandise in the basement is one of the plans under consideration by the Raphael Company.

Another policy that has been suggested is the operating of a bargain basement dealing in job lots, seconds, mill-ends, and broken lines of merchandise which could be purchased at low figures and which in turn could be sold to the public at greatly reduced prices. These goods would be sold by the automatic bargain basement plan which would operate as follows:

A week after the merchandise had been placed on the counter any goods that remained unsold would be marked down 25%.

At the end of the second week the mark-down would be increased to 50%. At the end of three weeks, the goods would be priced at but 25% of their original sales value, and all merchandise which remained unsold after it had been on the counters for a month would be given away. This method of operating an automatic bargain basement secures a rapid turnover. Furthermore, operating expenses would be low because little merchandise supervision and little clerical work are required. Since merchandise is automatically marked down at the end of each week, if a buyer makes a mistake in buying merchandise for which there is but little demand, it is automatically pushed out of the way so that new merchandise can take its place. No expert salesmen are required in the operation of such a basement, and but few alterations are made. The amount of returned goods also can be cut to a minimum, since a bargain basement can require all returns to be made within 48 hours. Delivery service is usually charged for, and all sales made for cash only, Some firms, however, object to the bargain basement scheme, on the ground that it usually draws only bargain hunters.

Question

What policy of operating its basement should be adopted by the Raphael Company?

Merchandise 30

Otto Haiger & Sons—Advisability of Maintaining a Grocery Department

In the department store operated by Otto Haiger & Sons, the grocery department has long been one of the better known departments. Before Mr. Haiger went into the department store business he had been a grocer and he continued to be very much interested in groceries. Hence, when he moved his department store into its new building, in which there was sufficient

space for a grocery department, he determined to establish such a department even though he realized that only rarely are department stores able to make grocery departments pay a profit.

In establishing the grocery department, and in establishing adjacent to it a delicatessen department, Mr. Haiger hoped to provide a selling department which would pay its way in the store and be an attraction for customers. In addition to making the department pay expenses, he planned to operate at a degree of efficiency which would enable him to undersell competitors without sustaining a loss. As a result of this decision grocery and delicatessen departments were included in the new store, and were fitted with equipment on a par with that of any grocery store in the city. The departments were distinctly leader departments. It was hoped that people would come into the store to buy groceries and while there would buy other things and that they would judge the store by the impression made by these departments. Mr. Haiger did not think that the grocery departments would make many sales to people who came into the store primarily to buy other things.

In the new grocery department Mr. Haiger installed package goods only. Even sugar was no exception to this rule. He felt that the handling costs and the time consumed in retailing bulk commodities were prohibitive. Groceries were delivered free on the regular delivery routes of the store, in the regular delivery equipment, and on the same schedule that other goods were delivered. The store made no rules prohibiting customers from buying in the grocery department except when their order was given in person, by mail, or by telephone.

When he added these departments, Mr. Haiger realized that he must watch them carefully to guard against their becoming too large in proportion to the rest of the store. It seemed to him that department store failures were frequently due to the fact that the leader departments became too large in proportion to the whole, and the profitable departments too small.

In the old building, when the store did not have a grocery department, the maintained mark-up averaged 31% and the net profit 2½%. There was no reason to believe that these percentages would change as a result of moving into the new building.

Questions

1. Provided that the establishment of the grocery department did increase the store's volume of sales, that the percentage of gross retained in the other departments remained at 31%, and that the grocery department by itself showed neither a profit nor a loss, how big might sales in the grocery department become without reducing the amount of net profit?
2. At what point would the amount of net profit show an increase?
3. Under what circumstances would this increase justify the establishment and maintenance of the grocery department?
4. Are Mr. Haiger's ideas with regard to leader departments in accord with sound merchandising policy?

Merchandise 31

Frederick Whiteside Company—Self-Service Grocery Department

The Frederick Whiteside Department Store is situated in a city of about 300,000 inhabitants in western New York state. Most of the department stores in this city are on East Main Street, which leads directly into the best residential sections, but the Whiteside store is about 10 blocks away on West Main Street, in the hotel and financial district.

Most of the industrial plants of this city are in the western part and consequently the population of the western part of the city is somewhat different in character from that in the eastern part. When the Whiteside store was founded 10 years ago, the necessity was recognized of making a strong appeal to the people who lived in that section of the city. It was decided to make this appeal on the basis of price. Up to 1917, however, this did not prove highly successful. The store was not showing as large a profit as the proprietors thought that it should. In 1917

a self-serve grocery department was established on the first floor of the Whiteside store. Customers entered through a turnstile at one side, took a basket from a large pile on their right, and went through the department collecting whatever groceries they wanted, finally coming out past a checking desk where purchases were checked over and weighed, if necessary, and where payment was made.

Goods were delivered to customers' homes at a charge of 10 cents for each delivery. This charge did not quite meet the expense of delivering, but few persons utilized the delivery service because telephone orders were not accepted.

The goods carried in this grocery department comprised the usual line of package groceries, some canned meats and vegetables, and such cold-storage goods as eggs, lard, and butter; potatoes and onions were carried, but no green vegetables or perishable fruits. Practically no goods were carried in bulk, potatoes, onions, sugar, and flour, being put up in packages of various weights. A number of stock persons were employed in this department to lay the goods out on the shelves and counters twice a day—at morning and noon. At these times the stock clerks turned in to the head stock man requisitions for such goods as they needed to replenish their supplies. These requisitions were sent to the warehouse twice a day. Inventory was taken once a month. All the stock clerks were trained to work on the checking counters during the rush hours. There were six of these counters, each with weighing scales and a cash register, but it was only on Friday and Saturday afternoons that the rush was great enough so that all these six counters had to be kept open. Some of the stock clerks were employed in other work around the store during the dull hours in the grocery department. Experience in the grocery business was not considered an essential or even a desirable qualification for the employees in this department.

Practically no goods were carried in stock which could be designated as fancy groceries. Most of the goods in this department were purchased from manufacturers, with the exception of fill-in orders, which were placed with wholesalers. Each day part of the store's newspaper advertising was devoted to this department, and there were usually three or four price leaders offered daily.

This self-serve grocery business was successful almost from the beginning. In 1920, the volume of sales was slightly over \$750,000. The rate of stock-turn was 24 times a year. The gross profit was 12%. From 12 to 18 employees were required to handle this volume of business. In addition to these, there was always one detective on the floor to prevent customers from stealing.

The executives of the Whiteside store considered the self-serve grocery department to a large extent responsible for the better showing which the business as a whole had made since the establishment of the department in 1917. It was not uncommon for as many as 2,500 customers to pass through the self-serve department in the four hours from 9 to 1 o'clock on Saturday. A large number of these customers made other purchases before leaving the store. Nevertheless, the grocery department itself was showing only a nominal net profit. About 25% of the goods carried were under the Whiteside Company's own private brand, and on these articles there was a larger percentage of gross profit than on the other 75%, which were all nationally advertised goods. The Whiteside Company's brands were being carefully developed to protect uniformity of quality, and some of them, especially the coffee and flour, were favorably known to almost all the Whiteside Company's customers. The general manager of the store strongly urged that the proportion of the goods under the Whiteside Company's own brand be increased as rapidly as possible. He thought that eventually the grocery department should plan to carry not more than 35 or 40% of nationally advertised goods.

Question

Should the advice of the general manager have been followed?

In 1918, the Sturgis, Cobb Company in another city in New York state made a study of the self-serve grocery department in the Whiteside Company store and decided to put in such a department in their store. Since they were catering to a somewhat more discriminating class of customers than was the Whiteside store, they included in their stock a fairly large proportion of fancy groceries. Otherwise the department was modeled very carefully on that conducted by the Whiteside store. At the end of the first year the Sturgis, Cobb Company found itself confronted by two serious problems in this grocery business. In spite of all precautions there had been a heavy loss from thieving, pilfering and an almost equally heavy loss from errors made at the checking counters. Furthermore, it was a daily occurrence for a number of this store's regular customers to call on the telephone and ask to have groceries, usually the items which they had noticed in that day's advertisement, delivered at their homes. When the manager of the grocery department explained to these people that the store was running a self-serve grocery department and that it was therefore impossible to comply with their requests, they frequently became annoyed and ceased to patronize the Sturgis, Cobb Company. It was not apparent that the self-serve grocery department was bringing many new customers into the store.

Question

Under these circumstances, what steps should have been taken by the directors of the Sturgis, Cobb Company?

Merchandise 32

The Creighton & Burwell Company—Furniture Department

The Creighton & Burwell Department Store is one of the leading mercantile firms in a middle-western city of about 600,000 inhabitants. This store has an annual sales volume of about \$8,500,000. The city in which it is located enjoyed a very rapid growth during the two decades from 1900 to 1920. Its population increased more than 75% during that time. A part of this growth was due to the fact that a number of automobile, automobile-accessory, and tire manufacturers located there because of the city's proximity to large supplies of the raw materials which they needed. Under these conditions the building industries, of course, thrived. Thousands of dwelling houses and apartment houses were erected, and the furniture and house furnishing business expanded rapidly. There were a large number of retail establishments in the city devoted exclusively to furniture, rugs, curtains, draperies, and other home furnishings. Most of the department stores had furniture departments. The Creighton & Burwell Company was at first reluctant to put in such a department because its store was situated in a district where rents were high and the president thought that because of the large amount of space required, the comparatively low rate of stock-turn, and the seasonal nature of the business, it might not be advisable to undertake it. In 1917, however, this store considered it necessary to put in a furniture department to compete with the department stores and furniture stores in the near vicinity. In the first two years this department showed a good profit, but towards the end of 1919 the sales of furniture began to fall off. Furniture inventories were large, not only in this store, but in those of a number of their competitors.

In the period of the depression beginning in 1920 many people in the city were thrown out of work by the closing down of factories. Building was at a standstill, and large numbers of the more or less transient class of workers drifted away to other cities. In the early part of 1921 furniture prices were reduced by all stores in the city. Some of the cheaper stores, especially the instalment houses, made big cuts in their prices, but most of the stores did not cut more than 25%. In August, 1921, a

customary month for furniture sales, many of the leading furniture and department stores made further price reductions. The executives of the Creighton & Burwell Company judged that their store faced a heavy loss if it were to continue to meet the furniture price reductions made by its competitors.

Question

Under these circumstances, should the Creighton & Burwell Company have discontinued its furniture department?

Merchandise 33

The Huron Department Store—Silverware

During the 10 years from 1910 to 1920, the Huron Department Store leased a section for the sale of jewelry. The company which operated this leased section had 10 other similar sections in department stores in cities in New York state in addition to a retail and wholesale business of its own. The merchandise sold in these leased sections comprised principally gold jewelry, rings, novelties, watches, and clocks. Sales of precious stones were not large, and no silverware was carried.

Early in 1921 the company which operated these leased sections became involved in financial difficulties. Inasmuch as this firm's lease with the Huron Department Store expired in March, 1921, the executives of the Huron Company considered it unwise to renew the lease under the circumstances. They were, however, unwilling to discontinue entirely the sale of jewelry, because that section had become more or less a familiar fixture in their group of departments on the first floor.

When it became known in trade circles that the Huron Company was going to continue the sale of jewelry, a number of salesmen for silver manufacturers called in and endeavored to induce the Huron Company to add silverware to their jewelry

line. Some of the directors were in favor of this move, believing that a good line of silverware would add prestige to their jewelry department. These men pointed out that it was a good time to take on silverware because some jewelers were discontinuing it and many others, who stated that there was little profit in it, were not pushing it actively. The vice-president, who acted as merchandise manager, strongly opposed this view. He wanted to know how a department store was going to make any money out of silverware when jewelers themselves said that they could not. He emphasized the point that large jewelry stores frequently made their diamond sales stand a substantial part of the overhead expense for other departments, including silverware. This, he thought, might enable some of the larger jewelers to sell silverware as low if not lower than the department stores could sell it. He also advanced the argument that much silverware was bought for gift purposes, especially for wedding gifts, and that in such cases the purchasers usually considered carefully the prestige of the establishment from which they bought. He did not believe that any department store could build up a prestige for silverware and jewelry equal to that enjoyed by the leading jewelry stores of the city. He pointed out, furthermore, that the store would have to make arrangements to have the engraving on silverware done outside, and he said that it had been his experience that whenever work was done under conditions beyond the control of the store friction and dissatisfaction were likely to result.

In opposition to this view, the president of the Huron Company advanced the argument that customers of department stores would not expect as much free engraving on silverware as they were in the habit of demanding from jewelers. He thought that the application of up-to-date department store methods to the selling of silverware might result in a more rapid rate of stock-turn than that obtained by jewelry stores. In reply to this the vice-president said that the competition between silverware manufacturers in recent years had resulted in such an increase in the number of patterns offered that to afford the public anything like a proper range of selection would keep the rate of stock-turn low. Some of the directors admitted the force of the vice-president's argument, but urged that the somewhat apathetic attitude of many jewelers toward silverware

created an especially good opportunity for department stores to make favorable terms with manufacturers of silverware.

Question

Should the Huron Department Store have added silverware to its jewelry department?

E. OTHER MERCHANDISE PROBLEMS

Merchandise 34

Orrington & Leatherbee—Best Selling Prices

In the summer of 1920, Mr. J. J. Fargot was appointed vice-president in charge of merchandise operations in the department store of Orrington & Leatherbee. The store carried a complete stock in men's, women's, and children's wear. It had an unusually large domestic department, a home furnishings department which included kitchenware, glassware, and china, and it also carried lamps, builders' hardware, books stationery, and small wares. A drug department had been recently discontinued.

Upon assuming office, Mr. Fargot made a rough survey of the store in order to locate places where important leaks might exist. This investigation seemed to indicate that the store was carrying merchandise at too great a number of prices, and Mr. Fargot went to the president, Mr. Orrington, and asked him what had been the store's policy in the past in setting its retail prices. Mr. Orrington replied that buyers had always been permitted to price the merchandise as they saw fit, and that their prices were dependent upon their costs, upon the percentage of mark-up they desired to secure, and upon what in their judgment the merchandise would bring. There had not, Mr. Orrington said, been any attempt to lessen the number of prices at which goods

were sold or to determine at which prices goods sold most readily.

As a result of this conversation, Mr Fargot decided to institute a system which would disclose the best selling prices for each type of merchandise. In line with this idea he offered a memorandum to Mr. Orrington which he hoped would convince the president of the value of his idea and secure for him the president's assistance in putting the idea into practice.

This memorandum began with an outline of the purposes of finding the best selling prices. First of all Mr. Fargot said that this would reduce the number of prices at which goods were sold. He added that this would encourage the buyers to build up larger and more complete assortments behind the best selling prices; that it would place the store's investment in inventory where it would be most fully utilized; that it would reduce mark-downs; that it would make the work of the salesperson easier; and that it would simplify the task of keeping track of stock.

In order to determine just what the best selling prices in each line were, Mr. Fargot suggested that the merchandise in each department be classified much more minutely than was being done; for example, dresses, instead of being classified merely as dresses, would be subdivided by material, and, if it seemed expedient, by style or purpose; hosiery might be subdivided by color and as plain, lace, and embroidered. After the stock in each department had been classified in this manner, Mr. Fargot suggested that a list be made of the prices at which goods in that classification were carried. From there on, the purpose of the investigation would be to determine at which of these prices goods sold most readily; then to concentrate the stock and the selling effort on these best selling prices and to eliminate, insofar as possible, the carrying of goods at prices which did not seem popular.

Price books were to be used for carrying on this investigation. A price book for each department was to be made up with one sheet for each subdivision of stock. Down the left side of this sheet would be placed prices at which goods were carried, and across the top of the sheet, forming 14 column headings, would be placed the months of the store's two seasons and the season

totals. In each space there was to be entered at the end of each month the sales of the merchandise specified at the price indicated for that month, and at the close of the season the monthly entries for each price would be totaled and the total shown in the season column.

After having presented this memorandum to Mr. Orrington, Mr. Fargot learned of a store which was carrying a complete assortment of merchandise in each department in each of three price ranges, and between these price ranges the store carried as little merchandise as possible. These three price ranges the store called its highest priced complete line, its fastest moving complete line, and its lowest priced complete line. The ranges at which these complete lines were carried had been determined by consultation of the merchandise manager, the advertising manager, and the buyers concerned, with the advice at times of the president or of other executives.*

Questions

1. Is the plan suggested by Mr. Fargot in his memorandum better suited for use in the Orrington & Leatherbee store than that of the three complete lines?

2. In what type of store could the plan of carrying three complete lines be used to advantage than Mr. Fargot's plan?

*Reference: *Business*, the monthly magazine of the Burroughs Adding Machine Co., for July, 1921, p. 10.

Merchandise 35

Downing Store—Use of High-Priced Merchandise in a Medium-Priced Store

The Downing store makes a practice of carrying medium-priced merchandise. In equipment and fixtures, however, this store imitates the higher-priced establishments. In its women's and misses' suit and dress departments, for example, thick, soft gray rugs, distinctively decorated chairs, and panelled walls help to lend a luxurious air to the whole room. All merchandise is carefully wrapped in tissue paper before being packed in boxes or slipped into an envelop bearing the store's signature. Salespeople are selected with a great deal of care and are carefully trained for several weeks before being allowed to sell merchandise.

Although the store mainly carries medium-priced goods, almost every department purchases a few high-priced articles. Thus, in the jewelry department where women's hand bags are carried, two or three samples may be purchased which retail for from \$75 to \$100, although the rest of this line of merchandise is priced much lower. Likewise in the fur department the buyer may purchase one or two seal skin coats which would retail at from \$800 to \$900, although the other furs in this department are much less valuable.

The vice-president in charge of the merchandising organization of the store explained the reason for this policy as follows:

> When a man comes to our store intending to buy a hand bag as a gift for his wife, he probably expects to spend around \$10. After he has seen the \$75 or \$100 bag in the display case, the bag which he originally intended to purchase appears so mean and cheap by comparison that he probably purchases a \$15 or \$20 bag instead. In the fur department the same psychology governs our merchandise policy. A woman may enter the store intending to buy a fur coat for \$150 to \$250, but, after catching a glimpse of the \$800 coat, she will probably not be satisfied with anything short of a \$500 article, if she possibly can raise the money.
>
> Although it may be necessary for us to dispose of our expensive merchandise at a heavy loss, a great many of our customers are induced to purchase higher-priced articles than they had originally intended to buy and the store makes a greater margin of profit.

Question

Is the Downing store justified in maintaining such a merchandise policy?

Merchandise 36

Loring-Dodge—Lines to be Carried

Loring-Dodge is a department store doing a business of around $650,000 a year in a manufacturing town of 45,000. It is more progressive than most stores of its class. Its fixtures and layout resemble those of large metropolitan department stores. Window display, which is excellent, is in charge of a decorator who does nothing else but dress windows.

A large variety of merchandise is carried. With the exception of furs, millinery, and men's and women's shoes, Loring-Dodge sells practically all the goods found in the largest stores. The strongest departments are men's and women's furnishings, furniture, rugs, piece goods, kitchenware, toilet goods, notions, phonographs, books, and pictures. The volume of business transacted in these departments corresponds to the order in which they are listed.

Loring-Dodge is a medium- and low-priced store appealing primarily to the factory population. The families of the executives of the factories, proprietors of retail stores, professional men, and others among the more prosperous citizens do most of their trading in a city of 700,000 that is within 30 minutes' train ride. Many of this group, however, buy such articles as kitchen ware, phonograph records, and some piece goods at the Loring-Dodge store.

Shoes are not carried by the Loring-Dodge store because of a conviction on the part of the proprietor that they constitute an unprofitable line for a small-town department store. Millinery and furs likewise are not handled because he considers that the former involves too much style risk and the latter too much of an investment.

Question

Should Loring-Dodge carry shoes, millinery, and furs?

Merchandise 37

J. W. Chandler & Son—Concentration on One Line in Unit Hardware Store

The hardware store of J. W. Chandler & Son, located in a city of moderate size in the Mohawk Valley in New York, has sales of approximately $54,000 a year. In addition to a reasonably complete line of tools, Mr. Chandler carries stoves, ranges, and furnaces, and installs heating plants. He also deals in plumbing supplies, installs plumbing, and operates a tin and sheet metal shop.

In the summer of 1921 Mr. Chandler received from the Steel-Edge Tool Company the following circular:

ONE LINE—OR MANY?

Simplification of stocks is the big lesson of the day for hardware retailers. It is better to have extra money in the bank or invested than to have unnecessary lines of goods on the shelves. Choose your lines wisely—then stick to them.

Due to the extraordinary conditions of the past few years, retailers, particularly hardware retailers, found themselves carrying stocks of similar articles from many makers. When one manufacturer could not supply them, they had to buy from another, with the result that their stocks were necessarily larger, more complicated, more costly to carry, and certainly less profitable. No one was to blame. In those days the Government had to come first.

But now many retailers realizing the importance of the task, are getting their stocks back onto a better basis; they are limiting the articles of the same type and price to a few makes—to one, where it is possible.

It is costly to carry two lines where one is enough. It means double stocks.

Many dealers have found it profitable to concentrate on the Steel-Edge complete line. There is no question of the quality and salability of Steel-Edge chisels. They *do* sell themselves, and, what is more important, their reputation and prestige, won through sixty-seven years of leadership, help sell the other items in the Steel-Edge line.

Steel-Edge quality is Steel-Edge quality—whether in a chisel, a hoe, a hammer, a saw, or what not, and the dealers who are concentrating on the Steel-Edge complete line find that the quality and reputation of Steel-Edge brand goods mean extra sales for them.

The reduction in prices announced in this folder affords dealers a real dollars-and-cents opportunity to concentrate their stocks and selling efforts on Steel-Edge chisels and tools.

The next sheet is an order form. On it are listed most of the best sellers in the Steel-Edge complete line. Write in the quantities you need to complete your assortment. Indicate the jobber through whom you wish the goods shipped, and we will see that you get prompt service at the new reduced prices.

THE STEEL-EDGE TOOL COMPANY

In the past Mr. Chandler has followed the policy of carrying a leading brand of each type of tool: for example, his stocks include Simonds files, Disston saws, Stillson wrenches, Plumb hammers, Brown & Sharp cutlery, and Stanley rules and levels. In other lines of hardware Mr. Chandler has followed the same policy, stocking Miller padlocks, Barney & Berry skates, and Crane valves, rather than trying to carry a complete line of hardware articles made by one manufacturer or put out under the same brand by one jobber.

Question

What should be Mr. Chandler's decision with regard to accepting the Steel-Edge proposition?

MERCHANDISE 38

CLAY'S—SELLING UNRELIABLE MERCHANDISE

Shortly after the beginning of the war the buyer for draperies curtains, and hangings at Clay's, an old and well-established department store, which does a business of over $10,000,000, found, as a result of the shortage of German analine dyes, that his best lines of window hangings would not keep their colors and would fade in the sun. Though there was no guarantee against fading, the price charged was such that the customer had a right to expect fast colors and long wear. Up to the time of the dye shortage there never had been any question about the quality of the colors.

Soon after the first curtains colored with the American analine dyes were sold, complaints began to come in. Disappointed customers demanded their money back, but this the buyer felt unable to arrange. He realized that in the future, unless German dyes could be imported, or equally good ones made in the United States, this would be a constant source of trouble.

Question

Should he have continued to carry the line in order not to turn prospective buyers away to other stores, or should he have dropped the line and let the stores incur the customers' ill-will?

Answer

The president of the store now believes that the line should have been carried, but no sale should have been made without an explanation by one of the executives, either the buyer or assistant buyer, of the facts of the case. The customer should have been told that he was getting the best hangings on the market, but that they were not sun proof. He should have been told about the dye shortage.

Question

What other means could have been used in handling this situation?

Merchandise 39

Samuel Arden—Slow-Moving Lines

One of the merchandise managers of the Samuel Arden Store, a department store doing a business of approximately $12,000,000, was bothered for several years by the fact that quilted linings had not been selling and had been occupying valuable space. These goods were so bulky that they would not fit into the shelves behind the salesgirls, but had to be piled on top, where they made

a bad appearance. At one time the merchandise manager had given orders to place them underneath the counters. There they were subject to dust, dirt, and knocking about; accordingly they were again piled above the shelves behind the salesgirls.

For over 10 years the demand had been insufficient to warrant the continued carrying of this line; slight as it was, moreover, this demand was constantly falling off.

The merchandise manager did not know how much of these goods his competitors were able to dispose of, but he did know that with the exception of one store the stock of quilted linings was small and was inconspicuously tucked away. It happened that this store was his most direct competitor. Both stores aimed at the middle-class trade. Both had a large supply of quilted linings marring the appearance of the piece-goods department on the first floor.

In making his decision it was necessary for the merchandise manager to reckon with the opinion of the buyer, who was firmly convinced that a large stock of this line was necessary because the competing store carried it. He argued that if this stock should be curtailed or done away with, customers would be lost.

Question

What should the merchandise manager have done regarding the quilted linings?

Merchandise 40

The Houston Department Store—Taking Goods on Memorandum

The general policy of the Houston Department Store is not to accept goods on memorandum or consignment, but exceptions are sometimes made to this rule. The managers judge that if merchandise is of good quality, full size, and in style, the manufacturer would have no difficulty in selling it for cash. They are convinced that no manufacturer or jobber would try to ship

goods to a store on consignment unless he was forced to do so as a last resort in order to dispose of them. As the merchandise manager explained, "I am almost certain that when a man offers to send merchandise to me on consignment the goods must be of poor quality, skimped size, and out of style."

The buyers, however, are often desirous of accepting goods on consignment, because by so doing they see an opportunity to increase the sales volume of their department without being burdened with obsolete stock in case the merchandise fails to sell. Under special circumstances, therefore, the merchandise manager grants permission to receive goods on consignment. For example, a manufacturer recently offered to ship to the Houston store 400 dozen men's neckties on consignment. These neckties were of a quality usually retailed at $1 to $2 each, but the price quoted on the memorandum was low enough to permit the store to sell the entire stock at 55 cents apiece. Although these ties were beginning to go out of style, the merchandise manager gave the buyer authority to receive these goods on consignment since the store was thereby enabled to offer its customers a high quality article at a low price. Not all these ties were disposed of at 55 cents each, the few which remained were sold at 25 cents apiece, and the buyer considered that he had "made a good killing on the consignment."

Another buyer received an offer from a clothing manufacturer who had made up a large number of suits from a material for which there was but little demand. He offered to ship 200 suits on consignment at a very low figure, all but 25 of which could be returned. The merchandise manager of the Houston Store refused to accept the goods under such conditions, since he did not care to load up his department with obsolete stock for which there was but little demand.

Although the terms under which goods are consigned vary, the above examples illustrate the type of problems which the merchandise manager of the Houston store has been called upon to face in deciding whether or not to sell goods on memorandum.

Question

Under what circumstances, if any, would the merchandise manager of the Houston store be justified in permitting his buyers to accept goods on consignment?

Merchandise 41

The R. C. Ladd Company—Organization

The R. C. Ladd Company, established in 1886, in a town near Boston, manufactures from 5,000 to 6,000 pairs of women's shoes a day. Up to 1912 staples only were put out and a specialty was made of "comfort" shoes. The entire output of the factory was distributed through retailers, some of whom held exclusive agencies.

In 1912, the policy of the company was changed. It was determined to abandon "comfort" and "health" lasts and enter the field of stylish and novelty footwear, to cease distributing through jobbers, to establish retail branches, and to inaugurate an advertising campaign. This policy was put into effect gradually at first, and then with as much speed as conditions permitted. At the present time there are 25 retail branches through which the R. C. Ladd Company disposes of two-fifths of its production. The "Mary Rose" brand is advertised nationally in magazines from the factory office and locally in newspapers from the retail branches. Staples constitute approximately one-third the shoes sold; the remaining two-thirds include novelty lines. That part of the factory output not distributed through the retail branches is sold, so far as possible, through exclusive agencies and the remainder to independent unit stores. Further expansion is planned primarily through the addition of new branches. The rate of growth during the last two years has been two or three new "Mary Rose" stores a year. This number, it is hoped, will increase four or five a year.

The sales organization is separated into two distinct parts: branch stores and outside retail stores, including exclusive agencies. Mr. Rolfe is the retail branch sales manager, and Mr. Estes is the sales manager for regular retail trade. Mr. Rolfe, with the help of two assistant sales managers, has direct supervision over the managers of the branch stores, who send in daily reports. Mr. Wyatt, the senior of the two assistants, has charge of the selection of locations. Mr. Estes likewise has two assistant managers. He directs the 40 traveling salesmen visiting the exclusive agencies for "Mary Rose" shoes and the retail trade. The sales organization also provides for a sales promotion manager responsible for publicity, dealer helps, and follow-ups.

The sales promotion manager with one assistant handles all transactions between the R. C. Ladd Company and the Belmont Agency, which plans and writes the "Mary Rose" national advertising. Local advertising through newspapers is in the hands of the branch store managers, who are allowed a fixed appropriation. Before placing copy, branch store managers must get the O.K. of Mr. Rolfe.

The R. C. Ladd Company believes in obtaining the best locations available. Wherever possible, the property is bought outright. If the desired location cannot be thus acquired, a lease is taken. Rents are as high as $40,000 for some stores. Of the 25 stores now in operation, 18 cost the company over 6% of annual sales for rent. This situation has been the subject of close scrutiny, but as yet nothing has been accomplished in reducing the item for rentals. One trouble is that it has been difficult to make the renting of the upper stories profitable, because the amount of window display space required by the "Mary Rose" store deprives the shop on the second story of an attractive entrance and of adequate display space.

Recently, Mr. Rarridan, assistant branch store sales manager, in charge of locations, made a suggestion at a meeting of executives which may be summarized as follows:

There seems little hope of reducing the percentage of total sales that is now being paid for rent by our retail branches unless a radical change is made. The R. C. Ladd Company is not in the position of some of the large chain stores whose size enables them to maintain highly organized location departments. All matters pertaining to locations are merely one of my duties, under the direction of Mr. Rolfe.

The amount of time at my disposal for the selection of a new location is limited, and subject to interruption by the pressure of other business. The difficulty does not arise from any fault in our organization, but from the fact that the second story above the "Mary Rose" stores cannot be rented at a profit. Therefore, the profit is taken out of the rent of the "Mary Rose" store, whether or not we are owners of the property. Nor can the situation be modified as long as shoe stores require so much window display space that it is impossible to provide for suitable entrance to the second-story establishment.

We should make use of this second story ourselves for the sale either of a line of hats, or of cloaks and suits. We have already applied our brand successfully to silk stockings, which were first sold by the R. C. Ladd stores in 1916, and to woolen hosiery, added in 1919. The sales of hose, especially in the fancy styles, have yielded satisfactory

profits in spite of the fact that the introduction of this line met with much opposition. These stockings, furthermore, have been a distinct aid to our advertising.

The establishment of such shops is the only available means of fighting rents. The upstairs store should be made to carry a portion of rent now charged to the shoe stores as payment for the good-will acquired by the use of the "Mary Rose" brand. Our store in Pameechee, Alabama, occupies the first floor of a three-story women's specialty shop from which the space is leased. This shop does an excellent business, and our store there is one of the most successful of our branches. Last year the rental that we paid was less than 5½% of the net sales.

Few changes in our organization would be necessary. If good branch managers are hired, and there is no reason why this cannot be done, the present sales manager of the retail shoe branches could handle the new auxiliary shops with the aid of a new assistant manager thoroughly experienced in the millinery or ladies' cloak and suit trade. The only other necessary change would be the addition of another assistant to the sales promotion manager. This assistant should likewise be recruited from the ladies' ready-to-wear business.

Question

Should the assistant sales manager's suggestion be adopted?

Merchandise 42

George Keene Company—Reduplication of Stock

The boys' department of the George Keene Company's store has been successful for years. It stands head and shoulders above the other departments. As the result of his success, Mr. Gillies, buyer for the boys' departments, has been allowed to do almost anything he wishes.

When Mr. Gillies became buyer of the department, only boys' suits and furnishings were carried. Gradually he added boys' shoes, hosiery, hats, and other articles. This he was allowed to do, not because the management believed in such merchan-

dising, but because it wanted to give an exceptionally able man the necessary scope for doing things his own way.

The stock of hats, shoes, and hosiery carried in the boys' department is small, but Mr. Gillies has succeeded in turning it more rapidly than the buyers of the hat, shoe, and hosiery departments have been able to do. He has succeeded, moreover, in spite of the fact that the boys' department is too small to permit him to carry full lines or display his goods to advantage. Though Mr. Gillies has been able to merchandise goods that do not belong properly to the boys' department, the merchandise office believes that there is a loss of sales because customers buy merely what they are after, there being no display of other articles, the sight of which might induce them to buy.

Question

Does the shopper's convenience in having all boys' wearing apparel centralized, counterbalance the loss to the store resulting from incomplete stock and lack of display space?

Merchandise 43

W. L. Mayberry & Co.—Layout, Merchandise, and General Policy

Mr. W. L. Mayberry, the proprietor of the W. L. Mayberry & Company store, began business in a suburb of Boston, about 30 years ago, with a small men's clothing store. During the first 10 years, sales grew rapidly, stock was gradually increased, and a loyal clientele was built up. The Mayberry name came to stand for dependable merchandise and good value in the district surrounding the store. As the Mayberry store was becoming established, the suburb was growing rapidly and real estate values were mounting. About 20 years ago, Mr. Mayberry saw that if he did not secure additional capital, he would be

unable to maintain his store in the location which he then had. He thought that he could not make sure of the location unless he purchased the ground and erected his own building upon it. In order that this might be done, he induced another merchant in that town, who handled women's and misses' garments, to join him. Together these two men bought a plot of ground, which was perhaps the best retail location in the town, and erected a three-story building. Mr. Mayberry's clothing store occupied the first floor of this building and the women's and misses' departments were placed on the two upper floors. The combined business went under the name of W. L. Mayberry & Company.

Since the union of the two businesses to form the firm of W. L. Mayberry & Company, there have been practically no changes in the business. The men's clothing and furnishing departments still occupy the first floor. The second floor has now been given over to juvenile departments, including boys', girls', and infants' wear, under the direction of the man who joined Mr. Mayberry. The third floor now houses the women's and misses' ready-to-wear departments. The volume of sales at present is somewhat over $225,000 a year. The average stock carried is approximately $100,000. The store employs fourteen salespeople; of these, six are in the men's department on the first floor, three are on the second floor, and five on the third floor. All parcels are wrapped by the salespeople, and change is made by two bookkeeper-cashiers, stationed at a Lamson tube desk. There are no cash registers in this store. The floor space available and the plan of the building are such that the Mayberry Company could readily handle double or triple its present volume of business without enlarging the present plant; and if necessary, an addition to the store could be built in the rear without purchasing additional land.

A large number of the people living in the town are employed in executive and clerical positions and skilled occupations in Boston. Others, as well as people from nearby smaller towns, work in factories in the suburb itself. The people who work in Boston are likely to do most of their shopping there. The stores in the suburb, including the Mayberry store, draw their business to a considerable extent from the smaller towns nearby. Since the town is largely a residential suburb, business is unusually

stable, rarely having either severe booms or depressions, and the factories there have been notably free from labor troubles.

Since the erection of the new building 20 years ago, and the combination with the women's garment store, the sales of the Mayberry Company have shown but a small increase. During this period other well-managed businesses in the town have grown rapidly, some from almost nothing to a size considerably greater than that of the Mayberry Company. This fact, along with the fact that Mr. Mayberry feels that he has room to do a much larger business than he is doing, makes him dissatisfied with the present volume of sales. He is certain that the merchandise is sound in quality and of good style value. The service in the store, insofar as he can see, is as good as that offered in the other stores in the town.

Although he has no statistics to support his position, Mr. Mayberry believes that the largest number of his customers are women. In spite of this fact, the first floor, inside, is arranged like an establishment exclusively for men. There is nothing, except in the show windows, that would indicate that women's goods are carried in the store, and Mr. Mayberry asserts that frequently a woman will come into the store, look about her, and start to leave. To prevent a sale being lost, a salesperson must approach her, ask what she wants, and direct her to an upper floor. Again, Mr. Mayberry says that his customers have a peculiar trait of expecting to find the merchandise which is displayed in the windows directly behind that display. For example, a woman came in one day and asked to see some dresses like those in the windows. Of course, since the entire first floor is given over to men's clothing and furnishings, she did not find them on the first floor. A salesman informed her that if she would take the elevator to the third floor she would find these dresses on sale. The customer then came back with the question, "After I get up to the third floor how do I get back down here again to where they sell the dresses?"

Mr. Mayberry hesitates to add new lines of merchandise because he is well along in years and does not feel able to cope with the problems that these new lines would bring.

Question

What steps should be taken to increase the volume of sales of the Mayberry store?

PART VI

SELLING PROBLEMS

PART VI

SELLING PROBLEMS

A RETAIL store operates to *sell* merchandise at a profit. It is practically true that all other retail management problems arise, directly or indirectly, as aids to selling.

A great deal has been done to improve the selling process in retail stores. This effort has undoubtedly resulted in better selling methods, and as a natural sequence, in lower selling costs. Little has been done, however, to help analyze or help crystallize the selling problems which the executives of retail stores must face.

Problems of intelligent sales promotion, of services to be rendered to the public, and of general sales policies, are now and will be of major importance in most types of retailing. The department store has been primarily a buying institution in that its power to purchase in larger lots at better terms has given it an enormous advantage over its smaller competitors. This advantage is rapidly disappearing with the growth of cooperative buying enterprises, the development of primary market offices for smaller institutions, and the increasing standardization of buying methods. Then, too, the department stores have been growing up to the limits of size as determined by the population to which their trade is naturally limited; but they have grown faster than the population and, as a result, are facing a period in which they will be forced to find a wider field of operations or to sell their wares more effectively.

The chain stores of the country are also facing a time when they cannot rely, as they do now, on price appeal alone to sell their merchandise. Competition will force them to devise new selling methods and to adopt forceful means for the development of sales.

The unit stores have long realized that their chief weapon in competition with their larger and more powerful competitors

is the personal contact they have in selling. The unit stores which will be able to survive against this competition are those which will make full use of this weapon and develop it.

And so it is with every type of retail establishment. Better selling methods, more carefully laid plans of sales promotion, and more intelligent service to customers must come. These will combine with the training of salespeople and the better supervision of the selling forces to make the functions of selling of greater importance in retail operations.

The following classification of selling problems has been adopted for this book;

A. General Selling Problems—Sales Promotion
B. Advertising
C. Credits
D. Returns and Allowances
E. Delivery
F. Complaints and Adjustments
G. Personal Service Problems
H. Special Types of Selling.

A. GENERAL SELLING PROBLEMS

Selling 1

Edinburgh Shoe Shop—Selling Policy

The Edinburgh Shoe Shop, in a large western city, was opened in the summer of 1918. It is a small store, 15 feet wide and 40 feet deep. The entire first floor is given over to selling space and the reserve stock is carried in the basement. The display windows are somewhat larger than those usually found in a shoe store of this size. This extra display space is secured by placing the door of the store farther back than is customary, so that the windows, although narrow, are very deep.

Within the store there is a small show-case at the right of the door for a stock of hose, and near it the cash register and a desk for writing sales slips. Aside from this show-case and desk there is no equipment in the store other than 36 fitting chairs arranged back to back down the middle of the selling

floor. Forward stock is carried on shelves running to the ceiling on all three sides of the room. No fitting stools are provided for salespeople. Each customer puts on shoes and laces them up for himself.

The store carries men's shoes only and stocks lines of unusual quality made especially for its trade. The proprietor and manager is a designer of some repute and gives close attention to the most minute details.

In spite of the fact that he carries only shoes of high quality, the proprietor believes in furnishing little or no service. He guarantees to each customer an excellent pair of shoes and a perfect fit, and, in order to be sure of fitting every customer he carries an exceptionally complete line of sizes and widths. He makes no attempt to give the customer elaborate service either in fitting and lacing up the shoes, or in luxurious store atmosphere and surroundings. The shoes are priced at approximately 20% below the prices at which similar or poorer quality shoes are sold elsewhere in the city. The whole atmosphere of the store is "take it or leave it." It is expected that the goods will sell themselves and that all the salesman has to do is make sure that the shoes fit, wrap them, and take the customer's money.

The work of selling is arranged in a novel manner. In the display windows are placed samples of practically all the lines of shoes carried in the store, and these displays are changed frequently so that all styles find a place in the windows in the course of a week. Each shoe in the window bears a card with the style number and the price. The customer is expected to look over the shoes in the windows, select the ones which he wishes to see more closely or try on, and then enter the store, giving the salesperson the style number of the shoe he wishes to see. In case the customer knows the size and width of his shoe the salesperson merely gives him a shoe of that size and width. The customer selects a seat, removes his own shoe, and tries on the new one. The salesperson meanwhile goes to assist some other customer. When the first customer has the shoe on and laced up the salesperson will return for a minute to see that the shoe fits properly and then will leave to attend to someone else. If the customer is not satisfied with the style of this shoe, he takes it off, puts on his own shoe and goes outside to

the window to find another shoe which he thinks will satisfy him. In this manner the customer practically sells himself a pair of shoes. The salesperson makes sure of the fit, makes out the sales slip, wraps the shoes, and takes the man's money. Business is almost always brisk and frequently all the chairs are filled. At such times, if there is a customer who is extraordinarily slow in selling himself and is keeping other customers standing, he very probably will be asked to leave in order to make room for someone who wishes to buy. Frequently, at such times as Saturday evening, the store becomes so crowded that customers must be asked to wait outside. In such cases, each customer is given a numbered card, and when a customer leaves the store the customer outside who holds the lowest number is admitted.

The store is open daily, except Sunday, from 8 o'clock in the morning until midnight. Two shifts of salesmen are employed, each shift working eight hours. The store is frequently so filled with customers at 12 o'clock on a Saturday night, that the A. D. T. office, whose service begins at midnight, calls up and asks the manager to lock up so its alarm will stop ringing. It is not uncommon for a single salesman to sell, in the eight hours he is on duty, more than 100 pairs of shoes. The Edinburgh store, in 1921, was selling no shoes for less than $6 and none for more than $10. Over 60% of its shoes sold for $8 or $9 a pair. Therefore, it can be seen that a salesperson selling 100 pairs a day was bringing in a considerable amount of money.

By this unusual method of selling, the store has built up in the short time it has been in operation a business of over $600,000 a year.

The store has also been successful in speeding up its rate of stock-turn to 11 times a year. The store has never had any stock in its possession for more than 5 months. It has rarely taken a mark-down and never held a clearance sale. The proprietor buys all his shoes on a 2/10—net 30 basis, and takes all discounts. Each salesman is paid a straight salary, and given a raise whenever the increase in his volume of sales warrants it. In addition, a prize is given to each salesman every time he sells 100 or more pairs of shoes in one 8-hour day. It is believed that a good salary gives all the incentive

needed, but that a commission gives the wrong sort of incentive, making the salespeople jump at the trade.

In forward stock the store carries two pairs of each size and width of important numbers, and of other shoes one pair of each size and width. Two men are kept busy filling forward stock from the reserve stock in the basement. If any of the eight or ten fitters finds that the forward stock of a given number is depleted and does not contain the size and width he is looking for, he shouts down, and one of the stock men brings up the shoes desired.

The manager works on the assumption that a customer is willing to go out of his way and to inconvenience himself if it is worth his while to do so. The salesperson must be courteous, but the salesperson gains nothing by taking a place on the fitting stool and watching every whim of the customer. Over-attentiveness encourages procrastination. All that is really necessary is salespeople who know how to fit shoes.

The Edinburgh Shoe Shop does very little newspaper or street car advertising, depending mostly on the recommendations of its customers. It is surprising how much advertising it gets in this way and how well the store succeeds in making its customers staunch supporters.

Questions

1. What are the advantages and what are the dangers in operating a store on this basis?

2. Is the general practice applicable in other lines of men's wear? Is it applicable in any merchandise sold to women?

Selling 2

Greenough and Preble—Changing the Clientele

Shortly after the civil war, Greenough and Preble established a department store in a large manufacturing city in New England. The store was founded during a period of falling prices, when people had but little money, and for a number of years it catered to the working class, largely made up of foreigners who were referred to as the "shawl trade." In 1891 a new brick building was erected and with the increase in the prosperity of the town the store no longer was compelled to cater to the immigrant class, but sold its wares almost entirely to American working people. Only staple goods which had no style element were carried, and Greenough and Preble built up a reputation for being the cheapest store in town.

Mr. Greenough died in the early part of 1915, and in the following year his partner retired from active participation in the business. Mr. Preble's two sons have operated the store since that date. After the transfer of the railroad shops to another city, and a change in the demands of the working class, due to a higher wage scale, the store began to fail to show a profit, although the annual sales volume remained close to $400,000.

An assistant superintendent of a New York firm was hired to manage the business. It was apparent that not much improvement could be expected with the handicap of an antiquated and worn-out building. A modern structure was, therefore, put up in its place. After a careful survey of the city, the new manager became convinced that the only way to put the store on its feet was to change the class of its clientele. Because of the serious financial condition in which the firm found itself, it was necessary to change the class of customers and put the store on a paying basis within from three to six months.

Two ways of changing the clientele of the store appeared to be possible. One method was to advertise that the store no longer handled cheap merchandise, but intended to cater to the best class of trade in the city. With the aid of a new building and new fixtures it would probably be possible to attract considerable attention to the store by such publicity. It was quite probable, however, that by such a policy the store would lose most of its old customers, and it was questionable

whether well-to-do customers would be gained merely by advertising, when the store had held the reputation for cheap merchandise for over 30 years.

Another possible way of attracting a different class of customers was to continue to carry cheaper lines of merchandise in order to take care of the wants of the old customers, but at the same time to stock high-grade goods for the better trade. By displaying this new grade of merchandise in the windows, and by placing it upon the tables at the entrance to the store, where passers-by as well as customers would be given every opportunity to see that a change had been made, the store would at least attract the attention of the better class of trade. Gradually the cheaper lines of merchandise could be moved to the basement, and the main part of the store could be given over to high-grade goods. Although this policy might not be spectacular, with the help of the new building and attractive displays, it seemed that it might be possible to develop a new clientele without driving away the store's old customers. This policy, however, would leave almost everything to the chance whims of the public. Although Greenough and Preble are located well inside of the shopping district, it is not at all certain that a better class of trade would be attracted to the store merely by a change in window displays.

Question

What policy should have been adopted by the new manager of Greenough and Preble's store?

Selling 3

Gilbert Foster and Company—Change of Clientele and Location

In 1914, Gilbert Foster and Company was operating an exclusive dry-goods and importing establishment in one of the old shopping districts of a city in the East. The firm had been established in the '90's and had built up a profitable though not large business in its lines of high-grade merchandise. Only the very best domestic materials were carried, and nearly one-half of its stock was imported. In addition to dry goods, the store carried men's and women's clothing and an exceptionally good line of draperies. It also had an oriental rug department widely known for the completeness of its assortment. The store did not carry furniture.

During the war the incomes of the store's customers, who were largely of the security-holding class, were considerably decreased in purchasing power, and as a result the store's sales fell off materially. Furthermore, the store was unable to make its usual importations from Europe, and hence it could not get the trade of people who had profited from the war.

In addition to the falling off in sales, the store's losses from bad debts increased rapidly. A number of its customers not only were forced to curtail their purchases, but also were unable to meet their bills. This condition was of particular importance in view of the fact that the store's pre-war business had been largely a credit business.

To meet this situation, the store found a location in the new retail district of the city, and erected a building admirably suited to department store needs. This new building was stocked with merchandise largely of domestic manufacture and of a lower grade than had been carried in the old store. From an exclusive importing and dry goods house the store changed to a high-medium grade department store. The granting of credit privileges was discontinued and all business conducted on a strictly cash basis. The store also began an aggressive advertising campaign. This campaign created considerable comment among the stores of the city, in view of the fact that Foster's had never before advertised.

Questions

1. Should Gilbert Foster and Company have solved its problem as it did?

2. If not, what should it have done to meet the war conditions?

Selling 4

Melville Store—Curtailment of Service

The Melville Store, of New York City, dealt in men's and women's furnishings up to 1913, in which year sales were $4,872,561. At that time the management, having succeeded in expanding the business beyond the physical limits of the store, erected a building nearby large enough to accommodate the transaction of an annual business of over $10,000,000. The plans of the company involved changing the character of the business to that of a general department store.

A vigorous advertising campaign was launched. Elaborate services were extended to the public such as large and luxuriously fitted restrooms, lectures on domestic science and dressmaking, ticket agencies and the like. Some of the merchandising departments in the store conducted classes in lamp shade making, basket weaving, wood burning, knitting and embroidery. The policy of the house toward charge accounts, returned goods, and alterations was one of liberality. It was felt necessary by the management to offer the public exceptional inducements in order to attract sufficient trade to get the new store on its feet.

Though the new building was imposing in appearance and adjacent to fashionable specialty shops, the old moderate-price policy of the Melville Store was continued. This policy was continued with success up to 1920, when annual sales exceeded the $13,000,000 mark.

In the spring of 1920 the management saw that the business depression made it necessary to curtail expenses, and with this in view the services extended to the public were made the object of close scrutiny. The directors realized that their customers had been educated to expect much, but it was determined to reduce expenses. The various services rendered by the Melville Store were taken up one by one in order to determine which should be:

(*a*) Eliminated
(*b*) Restricted
(*c*) Charged to the customer direct
(*d*) Maintained and borne by the management

The list of services then extended to shoppers free of charge was as follows:

"Ask Mr. Foster"
Free delivery
Restroom
Day nursery
Lectures
Classes of various kinds
Alterations
Goods sent on approval
Return goods
Shopping bureau
Special orders
Charge accounts
Checkrooms
Ushers
Prepaid parcel-post
Door men
Style shows
Ticket bureau
Extension of credit during Christmas and August fur sales
Post-office substation

The following departments in which a charge was made to customers were run by the store at a small loss:

Restaurant and tea room
Manicure parlor
Hairdressing parlor
Children's barber shop
Shoe-shining parlor

Question

How should the management have decided?

Selling 5

The Scollard, Fitzpatrick, Reynolds Stores—Sales Policy

It is the policy of the Scollard Department Store to handle high-grade merchandise at as low a figure as is consistent with a reasonable amount of profit. When merchandise is still on hand toward the end of the season, it is marked down sufficiently to cause the disposal of any ordinary lines of goods. Odd sizes and extreme styles which may be on hand at the end of the season are sold to bargain basements and other establishments dealing in job lots of merchandise.

Under no consideration does the Scollard store advertise a clearance sale or any other kind of special event; in fact, its entire policy is characterized by a lack of "stunts" and by a refusal to use comparative prices in any of its advertising. The demonstrating by a manufacturer of any line of merchandise is prohibited in the Scollard store. This firm has never used trading stamps or any special means of attracting customers, relying rather upon its reputation for high-quality merchandise at a just price.

In the windows and in the interior of the store no signs, advertisements, or placards are displayed. No price tickets are allowed to appear in any of the windows. This store has a reputation for the high caliber of its window displays, and under no condition are wax figures or other commonplace fixtures allowed. Only merchandise that is carried by the store is used in these displays.

Employees are not allowed to accept gratuities of any kind, and the store is noted for the courtesy of its salespeople and the high character of the service rendered. A bonus is paid to any employee who discovers a mistake in an advertisement, or who makes a practical suggestion for the improvement of the appearance or the service of the store.

In contrast to this policy the Fitzpatrick store, located in the same city, stages four sales events each year. Just before Easter it has its spring opening sale, which it brings to the attention of the public through 2-page spreads in the newspapers, street car advertisements, and billboards. In June it holds a white goods sale, and in August it combines furniture and fur sales with its big anniversary event. For the latter

sale the entire store is specially decorated. The last big event of the year is the fall and winter style show held about the first of October. The summer clearance sale coincides with the anniversary sale, but the winter clearance sale occurs in January and is not featured as prominently as the other four events.

During the rest of the year this store makes no attempt to advertise sales of any kind, although the buyers are always in the market for high-grade merchandise which they can offer to their regular customers at a low price, thereby attracting people to their departments. By limiting special sales to four or five events during the year, the managers of the Fitzpatrick store are convinced that they are strengthening the selling appeal of their store.

The Reynolds store, another department store in the same city, goes much further in its effort to stage sales events and keep its name before the public as a popular price store. On Friday of each week, at least 100 bargains are put on sale. Buyers are continually on the lookout for merchandise which they can secure at an extremely low price and place on sale for this weekly event. Full-page advertisements in the newspapers are used to inform the customers of these sales, and the departments carrying the Friday specials are decorated with signs and placards.

In addition to these weekly events, small clearance sales are held every month. For example, if a line of women's suits has not been sold at the end of 30 days, the suits are marked down in order to clear the stock from the department and make way for new merchandise. These monthly sales are also well advertised.

Twice each year the Reynolds store has its big clearance and mill-end sale, at which time remnants, job lots, and seconds are purchased in large quantities by the buyers to supplement their regular stocks. This mill-end merchandise may be slightly out of style, or have some minor defect which does not seriously impair its wearing quality. It is the intention of the management to give the public big values at as low prices as will show a profit. For these sales the store is decorated and the windows are crowded with merchandise and signs advertising the sale. In the mill-end sales, as well as in all other sales events, the Reynolds store uses comparative prices.

This store encourages demonstrations of merchandise by manufacturers, particularly of mechanical devices such as vacuum cleaners and washing machines. Stunts of all kinds are staged continually. Children's parties are held almost every month, and once a year a picnic is given. At Thanksgiving a window is filled with live turkeys, and at Christmas time a Santa Claus distributes gifts to the children. At frequent intervals a clown traffic officer with a Reynolds' advertisement on his back performs in front of the store. In fact, every opportunity is taken to keep the name of the Reynolds store before the public.

Question

What are the advantages and disadvantages of the sales policies of these three stores?

Selling 6

Myerbeer & Company—Mid-Week Specials

Myerbeer & Company operates a large department store in an eastern city. During the last 5 years annual sales have ranged between $9,000,000 and $10,000,000.

For 15 years Myerbeer's store has been working away from bargain sales, for which it was formerly well known, toward regular lines and stable prices. The merchandise now carried falls into a class between that of the most pretentious department stores and that of department stores specializing in inexpensive goods.

Various types of sales have been tried and abandoned by Myerbeer & Company since the change in policy 15 years ago. Up to 1908 the biggest sales event of the store was an anniversary sale in August. The amount of business transacted during this sale was startling. Sales were too heavy, however, to permit proper service, and the mark-down was too drastic

for profit. Though the sale probably served to bring new customers into the store, the effect on the regular trade was not considered beneficial.

As a substitute, monthly red letter sales were tried. After three years these sales were abandoned in spite of the fact that the volume of business transacted was satisfactory. The red letter sales, which lasted one day only, netted an average of \$55,000 total intake. It was estimated that they brought \$250,000 worth of business into the store each year which otherwise could not have been gained. Good values were offered to the public, necessitating sharp merchandising. The trouble was that the lowest priced department stores, out of which class Myerbeer's was trying to rise, were holding similar sales advertised as blue ribbon sales, gold medal sales, and under other similar titles. It was estimated, moreover, that as the result of special purchasing for the red letter sales, there was an excess accumulation of stock amounting to \$100,000 which had to be carried continuously. As in the case of the old anniversary sales it was found difficult to keep up service. For example, in the small-wares department, though thousands of dollars' worth of merchandise was disposed of, merchandise returns were high, because the salesgirls, who were overworked, made more mistakes than usual in picking out the various styles, colors, and sizes ordered of such articles as buttons, needles, thread, yarn, and the like.

In 1920 the point had been reached where there was an August furniture and fur sale, a midwinter sale, and nothing else in the way of special selling events with the exception of occcasional month-end mark-downs. Formerly, month-end mark-downs were held, without exception, at the end of every month. Special merchandise was bought for these sales. For several years prior to 1920, however, month-end mark-downs had been confined to times when there was an excess of merchandise in a majority of the departments. Myerbeer's former reputation as a store specializing in bargains had disappeared.

When this point had been reached, the management thought that the elimination of special sales events had gone too far. The directors were afraid that the store was getting out of touch with a substantial group of actual and potential customers. Therefore, on the theory that it was inconsistent for

a store making a strong price appeal to hold as few, and in some cases fewer, sales than high-priced department stores of the city which appealed to the public on the basis of style and quality alone, it was decided that something additional in the way of selling events should be established. After various suggestions had been considered, a schedule was drawn up according to which all but two or three departments were obliged to offer merchandise on Wednesdays and Thursdays, at a mark-up of not greater than 20%. The arrangement was such that most departments were obliged to have goods on sale at these terms every week. No more than two or three articles were to be put on sale by any one department at the mid-week specials. These special articles were to be advertised each week.

Questions

1. Should the mid-week selling plan have been adopted?
2. How would it have compared with ordinary types of sales?

Selling 7

The Margo Store—Regular Sales

For a number of years Wednesday and Thursday were dull days in the sales week of the Margo Store. To remedy this situation, about two years ago the firm adopted the policy of holding special sales every week on Wednesday and Thursday and it has continued this policy up to the present time. These sales are put on by different groups of departments which buy merchandise especially for these events. As a rule only merchandise for which there is a big demand is purchased.

The special sales of the various departments in the Margo Store are rotated in such a manner that each division puts on its sales at the most appropriate times during the year. Naturally, because of changes in style, those sections of the store

handling women's wearing apparel put on sales more often than do the other departments.

The merchandise for these sales is purchased by the buyers with the express purpose of giving the store's customers unusually good value for their money. These articles are bought on the usual terms with a large discount for cash payment in 10 days. It is the policy of the store to buy this merchandise just before the sale so that the goods can be sold and the money received from the customers before the manufacturer or wholesaler is paid. Thus the store reduces its operating expenses by speeding up its stock-turn and by operating on the capital of the manufacturer.

Because these sales are staged on dull days, additional service is not required. The same delivery force, sales force, and elevator service are used as on any other day. Consequently, it is the policy of this store to allow a mark-up of only 20% on the selling price of all merchandise placed on a mid-week sale; this additional amount of business is regarded as "clear velvet" which comes to the store with little or no additional expense. There is a consensus of opinion among the managers that the Margo Store is making a substantial profit on these sales, although the mark-up is much less than usual.

As an emergency measure in dull times some stores have adopted this policy of allowing only a 20% mark-up on certain lines of merchandise on special sale. They sum up the advantages of this policy as follows: by giving exceptional values they keep their clientele loyal to the store at a time when competitors, because of financial difficulties may be forced to a drastic price reduction; the name of the store is kept before the public through heavy advertising; the volume of business is kept up during a period when normal sales are falling off so that it is possible to hold the organization together until more prosperous times.

Few of these, however, have adopted this policy permanently, since it appears to their managers that an element of joint cost enters into this problem. For example, although the Wednesday and Thursday sales of the Margo Store may not require additional salespeople, it seems probable to these men that the marking, receiving, and stockroom forces must be increased or must work overtime in order to handle this additional amount

of work. Therefore, these stores have not adopted a mid-week sale policy because they do not think that it increases their profits in the long run.

Question

Is the mid-week sales policy of the Margo Company advantageous in the long run?

Selling 8

Kavanaugh Shoe Store—No Mark-Downs Until End of Season

The Kavanaugh Shoe Store handles only high-priced shoes and enjoys the patronage of the most prosperous people in the western city in which it is located. Although some of its competitors are frequently selling at a discount lines of slow-moving shoes in order to clear out their old stock before the end of the season, the Kavanaugh store refuses to follow this practice; instead, it holds all of its shoes at their original retail price until the end of the season.

The firm has been induced to follow this practice because it has found that reducing the price on one line of shoes tends to break the market on other shoes; for example, a fancy cordovan oxford may be going out of style. Unless this footwear is sold immediately, it may become almost impossible to dispose of it later on in the season, and the ultimate loss on this line of merchandise will be much larger than if these shoes were given a big mark-down and disposed of immediately, as soon as the demand for them has begun to fall off. If these shoes were marked down, however, the customer might get the impression that all the shoes of this quality ought to be sold at the same price; therefore, he would refuse to buy any shoes of the Kavanaugh store because he would think that the prices as a whole were too high. Consequently, the market would be

broken and more profit lost than would have been gained by marking down the cordovan shoes.

No sales are held, therefore, except two weeks' clearance sales which are staged in August and February at the end of each season. At this time all shoes are marked down sufficiently to insure the sale of any desirable merchandise. All left-overs which remain after the sale has closed are disposed of to the bargain establishments handling job lots in order to make way for new stock. Although these left-overs are sold at a nominal price at a heavy loss to the firm, the Kavanaugh Shoe Store takes this means to insure its customers against purchasing unsatisfactory or obsolete merchandise.

Question

What are the advantages and disadvantages of such a policy?

Selling 9

Philbrick Department Store—Loss Leaders

Advertising that it has the lowest prices to be found anywhere in the city is the keystone of the publicity work of the Philbrick Department Store. For a number of years, in order to build up trade, this store has followed the policy of using loss leaders. In other words, merchandise has been sold at a loss in order to bring customers to the store in the hope that they would buy other merchandise; thus the store would increase its volume of sales and recuperate its losses through the sale of other merchandise. For the past two years, although the store's volume of sales has increased, the percentage of net profit has diminished.

The Sherburne Store, with approximately the same sales volume and financial stability, also claims to have the lowest prices in the city. For a number of years, however, this firm has refused to run loss leaders for the following reasons:

Even though merchandise is sold at a loss, this fact is not appreciated by the public, which generally believes that a store makes a profit on all the merchandise it handles; furthermore, customers are becoming better educated to the ways of department stores and refuse to buy other merchandise when they have been attracted to a store through the advertisement of a loss leader. Hence the Sherburne Store has found it difficult to recuperate its losses from this source by increasing its sales of other merchandise.

The advertising of a loss leader has sometimes been taken advantage of by other stores; for example, in 1919 the Philbrick Store advertised at 7 cents a can a brand of talcum powder ordinarily selling for 19 cents a can. This talcum powder actually cost the store $10\frac{1}{2}$ cents a can from the manufacturer. Competing stores gave each of their employees 7 cents, and as soon as the Philbrick Store opened its doors, almost its entire lot of talcum powder was purchased by these employees from competing stores. This merchandise was then placed on sale by competitors at the regular price of 19 cents a can.

In several instances it was found that the policy of selling goods at less than cost destroyed the merchandise value of these articles; for example, ribbon which was usually sold at 15 cents a yard was purchased by the Philbrick Store for 8 cents; in order to increase its volume of sales, this ribbon was sold at 9 cents a yard, although a loss of from 2 to 3 cents a yard resulted. In order to meet this competition, other stores also reduced their prices, with the result that for a number of years 9 cents a yard became the regular price for that grade of ribbon in the city, and none of the stores was able to make a profit on this line of merchandise. For this reason, whenever it was possible to do so, the Philbrick Store ran as loss leaders merchandise which competitors did not carry, and which was not branded.

Although the Sherburne Store does not run loss leaders, it maintains a shopping bureau which reports on the prices charged by the other stores. In order to make good its claim that its prices are as low as any store in the city, the Sherburne Store is frequently confronted with the problem of meeting the competition of other stores which feature loss leaders. Whenever possible this store refuses to sell goods on such a basis, but instead removes this class of merchandise from its shelves and places it

in storage. When the goods have a style element, however, which would bring about a still greater loss if they were not sold during the season, or when merchandise is of such a nature that the store's customers would expect to find it carried, the firm is forced to meet the competition of loss leaders.

The only other exception to this practice of refusing to sell merchandise below cost is made when goods are sold at heavy mark-down during a clearance sale at the end of a season.

Questions

1. Would it be advisable for the Philbrick Store to discontinue loss leaders?
2. Should it adopt the policy of the Sherburne Store in taking merchandise off sale when competitors are selling such goods at a loss?

Selling 10

The A. W. Davis Company—Use of Trading Stamps

The A. W. Davis Company now owns 139 Economy Grocery Stores. It is planning to open as many more outside the city within trucking distance of the warehouse.

At present the city stores are meeting competition easily and are giving trading stamps with purchases. An elaborate study leads the company to believe that the cost of transportation and the lower stock-turn in the country stores will almost exactly offset the cost of the stamps. Hence, it has been decided to sell at the same price in both the city and the country stores, to continue to give stamps in the city stores, and to give no stamps in the country stores.

Questions

1. Assuming that the company's estimates of expense are correct, is this policy sound?
2. Should stamps be discontinued in the city and goods sold at correspondingly lower prices even though this will necessitate a difference in price between the city and the country stores?

Selling 11

Harold Beck, Pharmacist—Premium Merchandise

The Randall Drug Store, doing a business of roughly $200,000 a year, is situated in a town of 20,000 near Boston. Its trade is as good if not better than that of any store in the city. In 1920 the proprietor resorted to P. M.'s on private formulae and on a few slow-moving lines. Less than a year afterward, the P. M.'s were rescinded, the proprietor feeling that his clerks were annoying customers by undue persistence in urging the purchase of lines upon which P. M.'s had been placed.

Recently the Walton Company, which owned a large chain of drug stores throughout New England, bought out a chain of 27 stores located in a group of 14 towns and cities situated close together. The Walton Company acquired along with the stores a line of privately branded lotions, tinctures, pills, compounds, and other private formulae, which the customers of these stores continued to demand after the amalgamation. In order to stimulate the best efforts of their sales force to push Walton's lines and in order to educate customers to forget the brands which they had been buying, a 20% commission was given on all sales of Walton's private formulae. Four months afterwards the P. M.'s were cut to 15%; two months after that to 10%; later to 5%; and finally to between 4% and 2%. The rate of decline of the commission was roughly proportional to the rise in sales of the Walton products.

Morley's is a large drug store in a New England city of 80,000. The sales for 1920 were $380,765. There are three small branch stores in the city, and four others in neighboring towns. The branch stores do a business of $60,000 each on an average. Daily sales reports are submitted by branch managers to the general manager, and on the basis of these reports he follows slow-moving lines closely. It is his policy to stimulate the sale of such lines by means of giving P. M.'s.

Harold Beck, Pharmacist, operates a unit drug store near the North Station, which does an annual business of over $200,000.

Question

Should he use P. M.'s on slow-moving lines or on private formulae?

Selling 12

The Newton Shoe Store—Use of P. M.'s in Introducing New Lines

For a number of years the Newton Shoe Store has specialized in high-priced footwear of the latest style. Because of the loss resulting from the failure to sell a stylish shoe in the proper season, this store has followed the practice of paying P. M.'s to its salespeople for disposing of slow sellers, odd lots, and odd styles, thereby keeping the stock clean and reducing the number of left-overs.

While waiting on customers during a period when two of the shoe clerks were ill, the proprietor became convinced that the use of P. M.'s resulted in many dissatisfied customers. It also seemed to him that this policy gave a new customer a wrong impression of the store's character, and that salesmen sometimes used more time in disposing of a pair of shoes on which there was a small P. M. than would have been required to sell two ordinary

pairs of shoes. The owner of the store also noticed that each salesman had a particular type of shoe which he always tried to sell his customer. In other words, every shoe clerk was trying to force his personal taste on his customers.

The proprietor decided that the old system of disposing of obsolete styles by the use of P. M. 's ought to be dispensed with and that instead each salesman should be instructed that he must spend a reasonable amount of effort in disposing of stocks that were a little slow to sell. The proprietor was convinced that stock which was so old that a shoe clerk had to fight to get rid of it ought to be junked and not sold to customers.

For some time past it has also been evident to the proprietor that when new style lines of particularly high-grade shoes are being introduced the salesmen often hesitate to push them. Since this class of merchandise produces the greatest amount of profit, the owner of the store is anxious to have his salesmen give it their best efforts. He is, therefore, considering whether or not it would be advisable to place a P. M. on the newest and high-priced lines of shoes which he handles.

Under the proposed plan if a customer in a store intended to buy a certain grade of shoes and a salesman induced him to purchase a better pair on which there was a P. M., the customer probably would not become dissatisfied later on, for the shoes he had purchased would be of the latest style and of a quality that might wear better than the pair he had intended to purchase originally.

By this means the proprietor hopes to increase his profits and at the same time guard against the danger of dissatisfied customers.

Question

Should the Newton Shoe Store adopt the policy of using P. M.'s to introduce new lines?

Selling 13

Munsell Department Store—Use of Shopping Bureau

The Munsell Department Store, which employs over 800 people and has a corresponding sales volume, has organized no shopping bureau, but the store has kept in touch with the prices of its competitors through shoppers who have operated under the direction of the merchandise manager. The other stores in the city have been shopped by experienced employees or former saleswomen who have left the employ of the store to be married and who like to work for a few hours each afternoon. The managers of the store have considered that an organized shopping bureau would be of little advantage because a shopper is of value but for a limited length of time before her identity becomes known at the other stores. Since the shopping in this store has been done to assist the merchandise manager and his buyers, it has been carried on under the former's direction.

This use of the shopping function has been defensive rather than offensive. For example, although the store always reduces prices to meet competition, its reductions often have not taken place until competitors have been selling at a reduced price two or three days. Furthermore, new merchandise has sometimes been advertised at a stated price when a competitor has reduced his price on this article a day or two previously.

The Munsell store operates a restaurant for the convenience of its customers. Several customers have complained, however, that other stores in the city often have more up-to-date dishes and more innovations.

Although other stores in the city have adopted a light summer uniform for their elevator girls, the elevator girls of the Munsell Store have been required to wear heavy blue serge uniforms the year round. This fact was not brought to the attention of the management until two elevator girls had left the store's employ and several customers had complained that these employees were not receiving proper consideration or treatment.

It has been proposed to organize a shopping bureau, under the direction of the general manager, which would render a shopping service for the entire store as well as for the merchandise division. This would make it possible, for example, for the advertising manager to find out at what price competitors were

selling a certain grade of women's suits before he advertised these garments for the Munsell Store. In the same way the service manager could keep in touch with the conveniences which competitors furnished their customers and could compare the restaurant service which he furnished with that of the other stores. Information could also be obtained as to the consideration and treatment given other employees, or as to what steps should be taken to better insure the loyalty and good will of the force at the Munsell Store.

Question

1. Would it be advisable for the Munsell Store to organize a shopping bureau?
2. If so, what should be the duties of this bureau?
3. How should it be organized?
4. Under the control of what executive should it be placed?

Selling 14

J. Ralph Bentley and Company, Incorporated—Demonstration Privileges

J. Ralph Bentley and Company, Inc., operates a department store doing a business annually of between $12,000,000 and $15,000,000. When established, about 1905, the store carried only dry goods, a domestic department, small wares, and ladies' and children's ready-to-wear. Since that time, as its capital has grown, the store has added a house furnishings department, men's and boys' clothing and furnishings departments, an automobile accessory department, a grocery department, a drug department, and several service departments such as manicuring, hair dressing, children's barber shop, and shoe shine.

From the time when it opened the grocery department, the management of the Bentley Company was especially troubled

with requests from manufacturers who wished the privilege of placing demonstrators in the store. When the drug and toilet goods lines were added, the problem of dealing with these requests became even more troublesome and it was necessary to decide upon a uniform policy of handling them.

The first policy which the Bentley store adopted was that of refusing all such requests. It soon became clear, however, that the presence of demonstrators in the store might not be so undesirable as it seemed, and that the problems connected with the use of these representatives might be solved in a manner such that the store could get the benefit of the demonstration without also gaining the bad effects which so often accompanied it.

About two years ago the Bentley Company determined that it would admit the demonstrators of any drug or grocery product to its store on the following conditions: The demonstrator's entire salary must be paid by the firm employing her. The demonstrator must consider herself an employee of the Bentley Store insofar as store rules and regulations are concerned. She must recognize the authority of the floor men, the buyer, and any other officers of the Bentley organization. The demonstrator could set up in her department a display of the merchandise which she was demonstrating, and this display could remain set up during the time of her connection with the store, but she could remain at her display and engage in the demonstration of that merchandise only between the hours of 9 and 11 o'clock in the morning. At all other times she was to act as a regular salesperson of the store, selling merchandise wherever in the department she might be needed.

Questions

1. Was this change in policy in the best interests of the store?
2. If not, what policy could the management have adopted which would have been more beneficial?
3. Is the policy one that a manufacturer employing demonstrators might fairly be expected to accept?

Selling 15

Marquis Company—Order of Salespeople

The following systems of waiting on customers are typical of the retail shoe trade:

In a small store the proprietor sells many shoes himself and can constantly supervise in a personal way the work of all of his sales force. Consequently, in a store employing fewer than four salespersons, there is little need for working out a plan that will determine in advance which salesman shall wait on the next customer, which salesmen are to sell a certain kind of shoes, or which salesman shall wait upon customers of particular types or ages. By his constant personal supervision the proprietor can, if he chooses, direct all of these matters without serious difficulty. In such a store it is also rarely necessary for the proprietor to arrange for the salespersons to take turns waiting on customers, for it often happens that there is only one unoccupied salesman, and acquaintanceship often decides which salesman shall wait upon each customer who comes in.

In a large store it has proved highly advantageous to have some regular system of waiting on customers. The proper kind of system makes it practically impossible for the unoccupied salesmen to do as they like about meeting customers who enter the store. Then it is not left to the customer to choose the salesman, nor to the salesman to decide whether he cares to wait upon the customer, if the customer is aged, hard to fit, or difficult to please. A customer is gratified by immediate, courteous attention which seems to be given naturally. Many stores that employ several salespersons have a rule that at least two salesmen, if not occupied, shall be reasonably near the door so that when a customer enters there will be someone to wait on him immediately. Since too much attention, as in the case of a likely P. M. customer, may be as disconcerting as too little attention, a systematic plan provides for sufficient attention, but not too much. A customer will patronize a store where he feels at home.

In some stores the proprietors allow their salesmen to take turns waiting on customers. This is an easy but crude method of preventing the chaotic condition that exists in stores where no systematic plan is followed. One good feature about the

plan is that the proprietor is sure that every customer will be met promptly by a salesman and that the responsibility of meeting the customer will rest upon a certain individual in the sales force. It fixes the responsibility. Such a plan, however, does not always bring the best shoe fitter to the customer who is the hardest to fit. It does not necessarily bring the customer in contact with the salesman who knows him and the particular shoes that he wants. It does not bring the customer and the salesman of similar age together, nor does it permit the salesman to wait upon a customer who comes to the store because of his acquaintance with the salesman. For these reasons this method is little used in the most successful stores, except in connection with other plans.

In one store, a plan that works successfully is for the proprietor to meet every customer who comes into the store. If the customer knows one of the salesmen personally, that salesman is called to look out for his wants; or if the customer is a regular patron, he is turned over to the salesman who has waited on him before. If the customer has never been in the store before, the proprietor turns him over to the salesman who he thinks will be the most congenial. In this way, the proprietor gets acquainted with the trade and is sure that his customers are waited on by the salesmen who will be most likely to please them. This proprietor says that he is not nearly as much interested in knowing whether or not his salesmen's time is fully occupied as he is in having every customer waited on by a congenial salesman.

A progressive, moderate-priced men's ready-to-wear house, employing the best clothing and haberdashery salesmen obtainable, and paying them more than any other store in the city, provides regular stations for all salesmen. On the wall or on a post near each station a number is fixed on a card in plain view of the door man, whose duty it is to greet all customers as they enter, inquire as to their wants, and call a salesman. The latter, upon being called, presses a button which turns his number-card around face to the wall. After the customer has been accommodated, the salesman turns his number back again. The door man is supposed to see that the salespeople take turns in handling customers. Accordingly he is furnished with a list of the numbers of the selling force under his supervision, and

departs from the prescribed order only when a salesman's number is not visible.

In this store there are four entrances, with a door man for each. The numbers of all selling employees are easily seen from each door. The store, which does a business of between $1,750,000 and $2,000,000, occupies most of the first story and part of the basement of a large building. Offices are in a balcony.

Marquis Company is a moderate-priced department store with an annual sales volume of about $7,000,000. It is considered by many an old-fashioned store. The sales appeal is directed primarily towards people of moderate means. The policy is conservative.

The management has decided that the present system of permitting customers to find what they are after and pick out salespeople for themselves is not desirable.

Question

What system of waiting on customers should be recommended?

Selling 16

The Sibley Drug Chain—Sales Contests

The Sibley Drug Chain, which operates 27 drug stores in the Middle West, is faced with the problem of reducing a too great expense ratio. It is impossible to reduce the amount of rent paid, for no desirable locations are available at a lower figure. The expense for lighting has been reduced by whitening not only the ceiling, but also the walls and shelves above the counters and display cases and by securing as much light as possible from the windows without detracting from the value of the displays. Other expenses have also been reduced, and it is apparent to the management that the only way to secure a larger amount of profit is to increase the sales volume.

An attempt has been made to encourage salespeople to increase the amount of merchandise sold to each customer by suggesting that it would be cheaper if larger amounts of each article were purchased, as the customer would then secure the advantage of the quantity discount. Employees have been told that it costs on an average of 7 cents to wait on each customer. Consequently, if only a 10-cent article is sold, which cost the company 4 cents to purchase, the store is losing money on the transaction. Although some employees attempted to increase their average sales per customer, this educational campaign did not increase the total sales of the company enough to produce the desired amount of profit.

It is now proposed to establish a quota system and to hold sales contests among the employees. The plan is briefly as follows:

On the first of next month the 311 employees of the chain will be told that expenses are too high and not only must the sales force be reduced, but the total sales volume of the company must be increased in order to make a reasonable profit. A sales contest will therefore be held in which prizes will be given to the best salesmen. To be eligible for the prize, an employee must sell $6 worth of merchandise each day in excess of the amount that he sold on the corresponding date of the previous month. For example, if a salesperson sold $21.52 worth of merchandise on the 2nd of this month he must sell at least $27.52 worth of goods on the 2nd of the next month.

At the end of the month the winners are to be congratulated personally by the president and given prizes, such as a thermos bottle or a 5-pound box of high-grade candy, the idea being to reward the salesperson by the notice taken of him by the management rather than by expensive prizes.

In order to insure the conscientious work of employees who might lose interest in the contest because of failure to keep up to their quotas, the management intends to discharge at the end of the month eight or ten of its most inefficient salesmen.

The following month another contest will be run, at which time employees will be asked to beat each of their daily sales quotas of the first month by at least $4. At the end of this period the winners will be given an extra holiday and a few of the employees lowest on the list will be laid off. In the third

month each salesman will be asked to beat his second month's quota by $2 each day under the same incentive of reward for success and fear of discharge for failure.

One of the main objections to this plan is that salesmen not only must wait on customers, but also open up new merchandise, store it in the stockrooms, place it on the shelves when needed, and arrange the displays on both shelves and counters. It is feared that a scheme of this kind may cause all employees to put their entire time upon selling and to neglect their other important duties.

Question

Should the proposed sales contest be adopted by the Sibley Drug Chain?

SELLING 17

J. B. HAMILTON COMPANY—QUOTAS FOR CHAIN SHOE STORES

The J. B. Hamilton Company, shoe manufacturers, have a chain of 75 retail shoe stores in 20 states. The stores are scattered from the Atlantic to the Pacific, and from Minneapolis almost to the Gulf. They carry a complete line of medium-priced shoes for men, women, and children, as well as a line of findings and hoisery. The company aims to sell good merchandise, to give good but not extravagant service, to operate clean stores, while avoiding luxurious fittings, and to employ a high-caliber sales force, so far as that can be done without increasing costs disproportionately. No credit is given in any of the company's 75 stores.

In locating stores the company has entered no city of less than 100,000 inhabitants. It is especially careful to avoid cities where the composition of the population is such that only low-grade shoes can be sold in quantity. It also avoids cities in which shoe factories are located. The company intends that

each store shall carry a full line of styles and sizes in men's, women's, and children's shoes and do a normal, well-balanced business. For this reason, the company has not entered cities in the extreme North or the extreme South where demand is specialized on account of climatic conditions.

Up to January 1, 1921, quotas had been set for each store by lines. These quotas had been merely a rough goal toward which the store manager could work. There was no bonus or commission to be earned by reaching the quota. These quotas, which embraced only the business in shoes and did not include findings or hosiery, were set as follows:

1. The board of directors decided the total volume of sales in dollars which it desired the chain to reach.

2. Mr. Lawrence, the manager of all the stores, divided this chain quota among districts on the basis of the proportion which each district's sales for the preceding year bore to the total sales for the chain during that year. Mr. Lawrence divided the district quotas among the stores on a similar basis, varying the store quota thus arrived at if in his judgment special conditions seemed to warrant such change.

3. Mr. Lawrence divided these store quotas among the three lines, men's, women's and children's shoes, in accordance with the percentage which the sales in each line for the preceding year bore to the sales for the store during that year.

4. Then these store quotas in men's, women's, and children's shoes were divided among the 12 months of the year according to an average sales curve, which was based upon the company's experience in the preceding six years. This sales curve was a plot of the averages of the percentages of the sales in each month of each year to the yearly total.

During the period of rising prices preceding July, 1920, these quotas were readily reached and often exceeded by the store managers. In other words, during these years the business grew more rapidly than the directors expected it would. By December, 1920, however, it became evident that prices were dropping so rapidly that a quota for 1921, set in dollars, would be almost unattainable unless it represented a large decline over the quotas for 1920. For this reason the directors decided to

set their quota for the chain in pairs rather than in dollars. Accordingly, the number of pairs which the directors hoped the chain would sell in 1921 was furnished to Mr. Lawrence, and he apportioned this number among the stores in accordance with the methods previously used. As the spring season advanced, it was seen that these quotas were much too high. Managers throughout the chain fell far short and were inclined to be dissatisfied. About this time Mr. Lawrence began to feel that the compensation of store managers should be in some way based upon the volume of business in their stores; hence, he recommended to the board of directors that the quota for the chain be set in his office and that it be based upon the number of pairs of shoes which it seemed each store might reasonably be expected to sell. The board of directors accepted Mr. Lawrence's suggestion and voted that beginning with the first of July, 1921, the stores be given new quotas by Mr. Lawrence's office.

Question

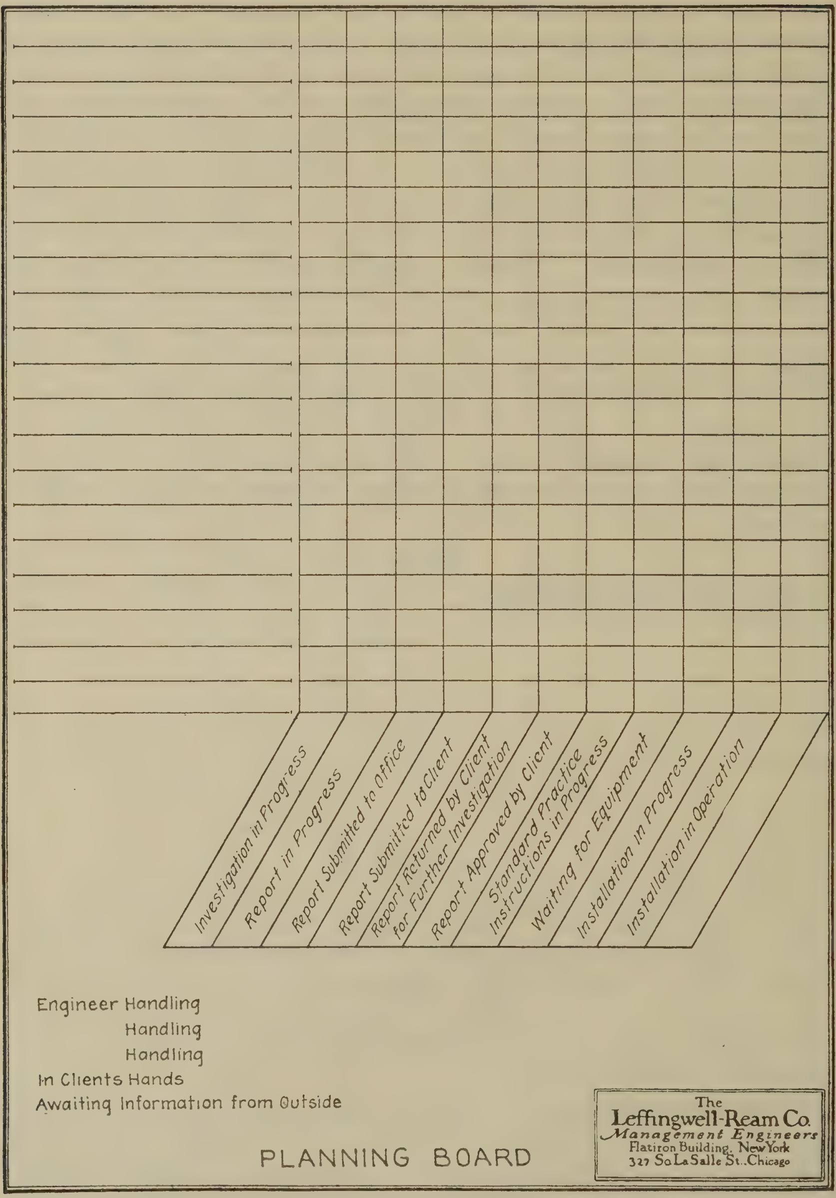
Was this step advisable?

Selling 18

The Leffingwell-Ream Co.—Planning Board

Mr. W. H. Leffingwell, of the Leffingwell-Ream Co., a New York firm of management engineers, has devised Form 46 on page 460 which he calls a "Planning Board" for the use of his engineers in keeping track of their various problems in retail and other business.

This form is printed on heavy paper and attached to a piece of board or compo-board of the same size. In the wide column at the left of the form the horizontal lines are slit in such a manner that the card reproduced below can be inserted, leaving only the blank space at the top of the card projecting. In this blank space is inserted the name of the problem to which



FORM No. 46. The Leffingwell-Ream Co.—"Planning Board"

the record applies. In the spaces to the right, tacks are inserted indicating the progress of the work on the problem. These tacks are of different colors, as explained later.

Form:

Source..

Date Considered...

INVESTIGATION

Started...

Completed...

Hours Spent...

REPORTS

Started...

Completed...

Hours Spent...

Submitted to office...

Approved by office..

Submitted to client...

*Returned by client for further investigation.....................

Approved by client..

OPERATING INSTRUCTIONS

Started...

Completed...

Hours spent...

INSTALLATION

Started...

In operation..

*Reasons on other side.

FORM No. 47. Card Inserted in the "Planning Board"

The card inserted in the planning board bears the information indicated by the form, and on the reverse side any further instructions or memoranda that seem to apply.

The instructions which the Leffingwell-Ream Company issues to its engineers explaining the board and its uses are as follows:

Purpose

1. The principal purpose of the planning board is to keep all problems, together with a brief history of the progress made on these problems, in front of the engineer in a visible form.

2. The planning board, if properly maintained, will save the engineer time; insures all problems coming to the engineer's attention each day, and also provides a means of studying and reviewing the time spent on each problem and comparing the time spent with the results accomplished.

Operation

3. It is important that all planning boards be kept in one standard way, and until such time as an improved method is authorized, the following plan will be followed:

4. Make a card for each problem which is being worked on. When a problem divides into more than one unit, make an individual card for each unit.

5. Assign each problem a number, and show this number in front of the subject on the heading of the card. When a problem divides into more than one unit, assign the same number to each unit, but in addition to this number assign and show immediately after this number a distinctive letter for each unit.

   Example:

   27A. Survey of Collection Department.
   27B. Survey of Bookkeeping Department.
   27C. Survey of Transcribing Department, etc.

6. At the bottom of each planning board are listed 11 of the steps which enter into the progress of nearly every problem. At the time each of these steps are reached, show this information graphically on the planning board under the proper problem by use of different-colored tacks. In order that the tacks of each color will have the same meaning on each engineer's board, the following standard has been decided on:

   Green........................Engineer handling.
   Blue.........................Supervisor handling.
   White........................Officer handling.
   Red..........................In client's hands.
   Orange.......................Awaiting information from outside.
   Brown........................Special.

7. In addition to showing the progress graphically, make a record on cards themselves showing each step in the progress of each problem or unit. When the front of the card does not provide the proper headings for the information to be entered, use the back of the card. To illustrate we are showing on the next page a few notations which appeared on two cards of a recent job:

Illustration A

2/10/21. Discussed the matter of private offices with Messrs. Adams, Jones, Meyers and Smith, and it was decided to limit the private offices to four, these offices to be occupied by the gentlemen who attend the conference.

Illustration B

2/5/21. Lithoprints received.

2/6/21. Checked lithoprints and found error in size of several desks. Returned lithoprints to draftsman for correction.

2/8/21. Corrected lithoprints received. Checked and found O. K.

8. To assist in recording the information called for on these cards, keep a record of your time each day on Lefax, form 83. At the end of each day make a recapitulation of your time on Lefax, form 92.
9. Enter on the proper planning board cards all information appearing on Lefax, form 92 as to time spent on each problem or unit. This information is valuable for the purpose of reviewing and analyzing the time spent on each problem, both while the work is in progress and also after the work is complete, to see whether more time is spent than the importance of the subject will justify.
10. After transferring all information from form 92 to the planning board cards, inspect each card and enter any new information which does not appear on form 92, such as Report submitted to client; Report approved by client; Equipment received, etc. Also analyze the cards from the standpoint outlined in paragraph 6.
11. Be sure and show all information of importance on the cards, as instances could be quoted where having complete and exact information immediately accessible during a conference with a client has proven a valuable asset.
12. When all work on each problem is complete, remove the card from the planning board; study the time spent on investigation, report and installation, and compare this time with the results accomplished. Studying each problem this way after the work is completed, brings to light many interesting facts.
13. File all completed cards for each job together.

It may be added that there are two uses not covered in the section headed "Purpose." These two additional uses are: first, to give the executive of the client under whom the firm is working a graphic method of controlling and keeping in touch with the work the firm is doing; and second, to give the Leffingwell-Ream office the same aid in controlling the work.

The Leffingwell-Ream Company in using this planning board makes no changes in the form to meet the needs of retail establishments.

The Roby Street Department Store is a West Side neighborhood store doing a business of between two and three million dollars a year in 42 departments. The store carries dry goods, men's furnishings, women's wear, small wares and home furnishings. It does not stock men's clothing, furniture, or groceries.

Questions

1. Where in the Roby Street Department Store could the planning board be utilized?
2. Would any changes in the board be necessary?

The Berkeley-Wells Company operates one of the larger department stores in an eastern city with sales in 1920 of $28,-325,000. This store has 123 departments and carries stocks of men's, women's, and children's wear, dry goods, domestics, notions, house furnishings, kitchenware, furniture, draperies, and musical instruments. This store has a planning department employing six people regularly in addition to the department head, and this department is directly responsible to the general superintendent, who has charge of personnel, plant, and service.

Questions

1. Could the planning board be utilized in the Berkeley-Wells store?

    (*a*) If so, where and how?

The Economy Grocery Company has a chain of 125 grocery stores in and about Detroit and Toledo. These stores are mostly one-man establishments, and they make no deliveries. All merchandise is sold for cash. The quality of the goods sold is good in all cases, but the appeal of the stores is essentially a price appeal. Control of the store managers is secured through the medium of superintendents, each of which has charge of approximately 15 stores. These superintendents make daily visits to each of the stores in their charge and are the agents of the management in all managerial functions. Two district managers are employed, one for the Detroit district and one for the Toledo district with offices at the warehouses in the respective cities. All buying for the chain is done from the home office in Detroit, and deliveries to the stores are made by motor truck from the Detroit warehouse or the Toledo warehouse. Store managers are not allowed to do buying.

Questions

1. Where in the organization of the Economy Grocery Company could Mr. Leffingwell's planning board be used?
2. What changes, if any, would be necessary in the form or in the headings?
3. In addition, where could the principles which Mr. Leffingwell has applied be utilized?

B. ADVERTISING

Selling 19

Crompton Department Store—General Advertising Policy

Department store advertising presents many variations in both practice and policy. Some stores use only institutional advertising, infrequently mentioning merchandise in their copy, but instead trying to build up a reputation by telling the public of the strength, history, and general policies of the store. Some firms go to the other extreme and use no institutional advertising, devoting all their space to describing the goods that are for sale. In this class, however, the stores are even further divided, for one group may describe only the general quality of all the goods which they carry, while other firms may describe specific goods. Then there is the question of using comparative prices. Many stores refuse to use such expressions as "Price $8.95, Value $10.00," or "Was $20.00, Now $16.48." In other stores such phrases are the main "stock in trade" of the advertising department.

In almost every large city, a few department or specialty stores are noted for their distinctive advertising. Sometimes this distinctiveness is achieved by the use of silhouettes to illustrate the cut of a gown, or it may be a distinctive border, or a peculiar layout with special type that attracts the eye and makes the advertisement easily recognized, even before the name is seen.

Another plan occasionally used is "stunt" advertising. A famous motion-picture star may be employed to appear at the store daily for one week. This fact, of course, is featured in all the publicity work of the store. Blind or teaser advertising is also used at times. For example, one store leased 30 billboards for one month. Large posters were put up the first week calling on the public to watch the billboards for news. The following week a large "50" was all that appeared on the boards, and not until 10 days before the sales was the public told that this publicity work was advertising the store's fiftieth anniversary sale.

Instances frequently occur where stores emphasize the romantic aspects of merchandise. For instance, in preparation for its August fur sale, a specialty store ran a series of advertisements

describing the thrilling adventures that the trappers and traders experienced in securing these furs. These sketches described the lonely life of the trapper, and how the furs were brought by dog sled over the ice to the trading post where they were baled and shipped to the fur auction to be sold to the manufacturers.

Somewhat different from this romantic style is the policy of some of the best known stores in the country of running a personal column in each advertisement. The column is usually run under the direction of one of the staff, who edits each item of the store that appears and gives the column an intimate personal touch that serves to identify it with the store.

In the actual layout of the advertisements, a great many stores employ cuts. If the store is large enough to warrant having artists on its staff, these cuts are made up from the drawings of the merchandise in stock. On the other hand, smaller stores must rely upon the manufacturer or an agency to furnish them with cuts. Still other stores refuse to use cuts in any of their advertising, preferring to rely upon straightforward copy to attract customers to the store.

A policy which has come more and more into vogue within the past few years is to split up the newspaper space taken by a store and distribute several smaller advertisements through the different pages of the paper instead of running full-page spreads. In this manner the reader's attention may be caught not once, but several times as he glances through the paper. Other stores, however, still hold to the older policy of running only one advertisement to an issue on the ground that several smaller advertisements require much duplication and waste of space due to repetition of the border, headings, and store name. These latter stores also hold that the reader's attention is both attracted and held by a full-page spread to a greater extent than is possible with the use of split advertisements.

In their choice of type, stores differ widely. One store may use large headlines with the body of the advertisement in good-sized type, while other stores may use small type throughout their entire insert.

A common plan is to break up advertising space into a number of small blocks, each one of which is devoted to one article or group of articles. In direct contrast to this policy is the plan followed by a number of specialty stores of devoting

an entire page to describing a lot of women's coats, for instance. These two policies may be characterized as "dispersion versus concentration."

A substantial number of the larger stores have an advertising staff which writes all the copy and plans the advertising; but other stores, although they have an advertising department, leave all copy writing to the individual buyer on the ground that he knows the merchandise better than anyone else, and, therefore, can write more truthful copy. In order to be sure that advertising claims are not exaggerated, a few firms have the merchandise sent to a chemical laboratory, where it is tested to see that the colors are fast and that a garment advertised as "all wool" measures up to the proper standard.

In planning their advertising some stores budget the amount that can be spent by a department in any one month, but the buyer and advertising manager are allowed to spend the money in any way they see fit. One store, however, requires that all copy must be approved by the controller before it is printed in the paper.

The controller figures the amount of space required and the cost, and checks this against the amount of merchandise to which the copy refers. If the cost of advertising any particular lot of goods exceeds the percentage which is considered normal for this class of merchandise, the controller refuses to give his O. K. to the copy.

The Crompton Department Store has had six different advertising managers within the past 10 years. Each of these men was given a free rein in laying out his policies and handling advertising, in the hope that he would be able to secure a substantial increase in the volume of sales. This store, therefore, has no settled advertising policy.

This store has a reputation as a medium-priced establishment, and specializes in the latest styles in women's clothing, shoes, and millinery. The advertisements have sometimes referred to it in the past as the "People's Store." Its annual sales volume is approximately $6,500,000. The store occupies a modern building completed in the fall of 1916. The city in which the Crompton store is located has one morning paper and two evening papers, all of which have a substantial circulation.

Questions

1. What should be the advertising policy of the Crompton Department Store?
2. What should be the advertising policy of a large-unit drug store in the same city?

Selling 20

Lovering Department Store—Advertising Appropriation

In planning its budget for advertising the Lovering store is guided, but not limited, by its expenditures during the previous year. The advertising budget is made out from 30 to 60 days ahead of the placing of the actual advertising, according to the percentage of the total planned sales which past experience has justified. This budget is made out by the controller and approved by the merchandise manager; any changes must be approved by the controller. These figures are then sent to the advertising department, which is supposed to govern its expenditures accordingly; but in reality it sometimes happens that the budget limit for a department is exceeded before the month is up; in such a case the advertising department is usually able to secure the approval of the controller for an additional appropriation if the situation warrants it.

The controller has learned that one of the store's competitors schedules its advertising six months ahead. The Lovering store never adopted this policy because it seemed advisable to adjust the advertising budget to the special conditions existing at the time the advertising was to be placed. This competitor also has the policy of cutting each month's appropriation in half and allowing only this amount to be spent in a half of each month. This policy prevents the spending of most of the appropriation within the first two weeks of the period. If these limits are exceeded, the controller of this store analyzes the

sales to the nearest date, compares the sales with the actual advertising, and gives approval to the increased appropriation only if the sales have been increased sufficiently to warrant it. He justifies his policy on the ground that the value of an advertisement should be judged not according to its cost, but according to its pulling power. Consequently, unless sales have been increased beyond the amount planned, this controller believes that any deficit in the month's appropriation for advertising is due to poor publicity work. He maintains that the efficiency of the advertising should be increased in a case of this kind rather than the size of the appropriation.

The Lovering store has followed the policy of scheduling its advertising according to the trend and fluctuation of its sales. For example, during April and September, when the sales volume is large, the store does a correspondingly large amount of advertising. In February, July, and November, when sales have fallen off to a large extent, advertising is curtailed. The only exception to this rule is in the month of December, at which time many small dealers, who do not advertise extensively at any other time, indulge in an "advertising splurge." The amount of advertising done by the Lovering store in this month is comparatively small, since it is thought that customers will purchase merchandise for the holiday period whether it is advertised or not, and also because it is argued that any one advertisement does not have great pulling power at this time, when the newspapers are filled with so many advertisements.

Several other stores in the city in which the Lovering store is located have, however, adopted the opposite policy of advertising most during the dull season and least during the busy periods in an effort to lessen the seasonal fluctuation of their sales. The managers of these stores are convinced that the amount of business done during any period depends upon the efforts the store makes to secure it. These stores also split up their advertising space and distribute it through a paper on two or three different pages. The Lovering store, however, has held to its old policy of placing only one advertisement in a single issue.

Because of the large amount of business transacted by the Lovering store on the first of each week, it rarely advertises in the Sunday papers. Most of its advertising is distributed

equally over the other six days of the week. One of its competitors, however, has adopted the policy of advertising only on Mondays, Tuesdays, Thursdays, and Fridays, while another competitor schedules his advertising for Mondays, Wednesdays, Thursdays, and Fridays. The managers of the Lovering store are considering whether or not it would be advisable for them to change their present weekly schedule.

Questions

1. What facts should the controller of the Lovering Department Store consider in deciding whether or not to change the store's weekly advertising schedule?
2. What are the advantages and disadvantages of splitting advertising space in each issue?
3. Is it advisable for the Lovering Store to continue its present policy of budgeting its advertising according to the fluctuation of its sales?
4. What are the advantages and disadvantages of budgeting advertising six months in advance?
5. Should this policy be adopted by the Lovering store?

Selling 21

The Morgan Sayles Company—Connecting Advertising and Merchandising

At the 1921 convention of the National Retail Dry Goods Association, Chester A. Brown, publicity director of L. S. Plaut & Company, Newark, N. J., addressed the Advertising group, speaking in part as follows:

> In every well-regulated retail establishment, there should be one individual who knows everything about a given event. In the stores of the smaller type, this might well be the proprietor himself, but in

the larger institution where the owner merely directs the work of the various branches of his business, this important functionary should be the sales director. As a rule, the majority of sales directors in department stores are graduates of the advertising department. This is perfectly logical inasmuch as the advertising end of a business is the most important of retail sales promotion, and the training of an advertising office along creative lines is the best possible for the more advanced duties of sales director.

Generally speaking, the sales of a retail store are made up of the following elements—merchandise, advertising, display, and selling, and when the statement is made that "the sales director should know everything," it is not intended in the sense that he should be a combined expert in merchandise, advertising, display, and selling, but he should be sufficiently versed in the fundamentals of all those branches to be able to direct from an executive standpoint, the actual heads of these departments and to correlate them to the end that the best results might be obtained.

The sales manager should devote a considerable portion of his time to the planning of the main functions of the year, for no matter how remarkable the merchandise, no matter how clever the advertising or display, the best results cannot be obtained unless there has been careful planning as a preliminary.

In the final analysis, the two main elements in selling are merchandise and publicity. These two elements are so different in their general characteristics that there is often a clash when they get together. It is a difficult matter, frequently, to get an individual whose training is along purely merchandise lines and who thinks in terms of merchandising to appreciate the advertising point of view, and similarly advertising folks frequently do not appreciate the merchandise angle. The solution lies in getting the two elements to speak to each other in a common language. The sales director is an ideal interpreter.

In some stores the committee method is used, committees supervising the various phases of the store's activities. There is, for instance, a merchandise committee, a committee on publicity, a store management committee, etc. By the proper interlocking of interests excellent results have been obtained. For example, the merchandise committee will be made up of two merchandise men and the sales director. The publicity committee consists of the sales director, a merchandise man and the display manager. The store management committee will be made up of store manager, display manager and a merchandise man. Under an arrangement of this kind, the deliberations of the merchandise committee, for example, are participated in by the sales director.

Even further than that, in some stores today much of the sales plans originate with the publicity department. While it is true that all advertising begins with merchandise, yet in these stores the publicity department plays a dual part, first, in stimulating the event, then preparing the sales plans after the merchandise has been purchased.

The Morgan Sayles Company is a large department store. At the head of this organization is a committee composed of the president, vice-president, and treasurer, who have general supervision over all store functions, both merchandising and non-merchandising. There is a board of directors, composed of the three men above named and five other store executives, which decides all important questions of general policy.

Two general merchandise managers are responsible for the merchandise management of the store. Under their direction are the sales departments, the advertising office, the receiving and stockrooms, and the repair departments. Credit and other services come under the non-merchandising management.

Directly responsible to the two general merchandise managers are six division merchandise managers, who are the direct superiors of the buyers. Each divisional merchandise manager consults one of the general merchandise managers regarding half of the departments under his supervision, and the other merchandise manager regarding the other half. Every morning at 9:30 there is a meeting of each group of merchandise managers under their two chiefs. When this meeting is over, the divisional merchandise managers hold separate conferences with each of their buyers. These conferences, called advertising conferences, cover all questions of departmental merchandising.

The separate departments are charged with advertising expense, direct wages of sales force, and any new fixtures that may be required. The buyer is allowed a given percentage of the preceding year's sales to expend on advertising. This sum may be exceeded at the discretion of the divisional merchandise manager. In actual practice the distribution of advertising space to the various departments is settled between the buyers and their divisional merchandise managers. When a buyer wants to run a quarter-page or half-page in the daily papers, he must get the merchandise manager's O. K. The latter is governed in his decision by such circumstances as previous consumption of space by the applicant and the advertising requirements of other departments under his jurisdiction. The advantage of this method is that it provides sufficient leeway to cover such departmental needs as cannot be prophesied in advance. The disadvantage is that some buyers particularly skilled in playing store politics may get more advertising space

for themselves than is compatible with the best interests of the store as a whole. As a check against possible abuses, the fixed advertising allowance of each buyer enables the merchandise managers to see which buyers are exceeding their appropriation and which are not getting their share.

When a buyer has obtained the merchandise manager's O. K. on advertising space, he must either write his own copy or tell one of the copy writers in the advertising office what he wants. The purpose of this arrangement is to permit such buyers as are capable of writing advertising material to do their own work. In any case the manager of the advertising office approves all copy. This executive is responsible only to the general managers at the head of the merchandise management. He is not connected with merchandising except indirectly through his two superiors and through the various buyers and their merchandise managers. He has no control over or direct connection with the credit department or any other department in the store.

If a buyer wants space for a window display, he goes through the same procedure as above described. There is one important difference between advertising and window display in the Morgan Sayles store; namely, advertising expenses are charged directly to the department, but charges for window display space are prorated to departments on the basis of sales. There is a window division under a manager who, like the head of the advertising department, comes under the direction of the two general merchandise managers. The director of window display allots space to buyers, when the latter have secured the approval of their merchandise managers. It is the duty of the man in charge of window display to keep in touch with store conditions sufficiently to see that each department gets its due share. The buyers are expected to cooperate with him in this by making their needs known.

Questions

1. To what extent is the plan outlined by Mr. Chester A. Brown applicable to Morgan Sayles Company?
2. How should the details of such a plan be worked out in this case?

Selling 22

The Sherbrooke Company—Scope of Advertising Manager's Duties

The Sherbrooke Department Store was established about 35 years ago. Up to 1920 this store was conducted along traditional, conservative lines. The merchandise carried was of good quality for the most part, but there was no definite attempt to make a quality appeal in the advertising. In fact, the store had no definitely formulated advertising policy. The advertising expense of the store usually amounted to about 2½% of net sales, which in 1919 were $8,400,000, approximately. Most of the amount expended for publicity was used to purchase space in the city papers. One of the junior members of the firm looked after the advertising. The copy was written largely by buyers and assistants in the various departments. Although the advertising of the Sherbrooke store was never of the very cheap, blatant variety, nevertheless it never rose above a very commonplace level. At various times during the year special sales events were held and frequently special lots of cheap merchandise were bought for these events; in advertising these special sales price comparisions were freely used.

Early in 1920 the control of the Sherbrooke Store passed into the hands of an entirely new set of men. The new owners were enterprising and progressive, but had little or no familiarity with the department store business. They believed, however, that the Sherbrooke store had not been conducted with a sufficiently definite policy. They wished to handle merchandise of good quality and to make a consistent appeal in their advertising, window displays, and store atmosphere to the best class of department store trade. They had no very definite ideas on advertising except that they believed that the use of price comparisons had been overdone and that the rather haphazard methods of the old management in conducting the advertising department were not in accord with the best advertising principles. One of the first steps of the new management of the Sherbrooke store was, accordingly, to hire a new advertising manager. The man whom they employed came highly recommended from a very progressive store in the Middle West. Since the new owners were not familiar with any of the details of store

publicity work, they gave the advertising manager practically free rein to organize his department, merely stipulating that the advertising of the store should be thoroughly consistent and should base its appeal on quality rather than on price.

The new advertising manager spent the first month familiarizing himself with the business. At the end of that time he submitted a memorandum to the head of the firm, making the following recommendations:

1. That the advertising manager should be a member of the executive council of the store.
2. That the advertising department be given at least partial control of the planning of sales.
3. That the staff of the advertising department should be enlarged so that there should be at least one copywriter for every three departments and that no copy be written by anyone not directly responsible to the advertising manager.
4. That the editor of the house organ be made responsible to the advertising director and the house organ used to build up good-will among customers as well as employees.
5. That the use of illustrations in the store's advertising be discontinued on the ground that it might result in misrepresentation of merchandise.
6. That the aim of the advertising department should be to sell the store as a whole rather than to sell particular lots of merchandise, that is, that much of the copy should be of an institutional character.
7. That the advertising department be given the privilege of supervising the writing of collection letters by the credit department.
8. That the merchandise comparison bureau be made responsible to the advertising manager.
9. That a testing laboratory be installed in the store and that no statements regarding merchandise be made in the store advertising until these should be fully verified by laboratory tests of the merchandise.
10. That the advertising manager have the power to refuse to advertise any merchandise which he believes is not up to the store's usual standard of quality.

The members of the firm were very much surprised to find that the new advertising manager had such a very inclusive conception of the place of his department in the management of the store. They were unwilling, however, to take steps which might result in his resignation, since they entertained a high respect for his ability.

Question

What action should they have taken on the memorandum submitted by the advertising manager?

Selling 23

Lucius Mainkin—Organization of Advertising Department

Oakley Brothers operate a department store, the sales of which were over $20,000,000 in 1921. Their advertising department is on a par with the merchandise office. Both come immediately under the principal executives of the store. The advertising department, headed by the advertising manager and his assistant, is divided into three divisions. First comes Advertising, which includes newspaper advertising, catalogs, and show cards, There are three chief copy writers, seven assistant copy writers. four artists, and a secretary in charge of the stenographers and office boys. The second division is Decoration. This division is under the display manager, who is responsible to the advertising manager. Working for him are one artist, two property men, and four decorators, as well as carpenters, printers, and sign painters. The third division, called Miscellaneous, carries with it no permanent personnel. It covers style shows, lectures, and music. The personnel requirements of the Miscellaneous division are filled on a temporary basis. The comparison office is shared by the advertising and merchandising departments, from both of which the management of the comparison office takes orders. In 1921 the payroll of the department was $120,000. The advertisements of Oakley Brothers are considered excellent. The layout and type are distinctive without being flashy. The written matter is dignified and attractive, and sufficiently original to arrest attention.

Mooney's is a department store which has sales a little less than two-thirds as great as Oakley Brothers. The advertising is in charge of a manager, who has at the same time important duties in the merchandise office. This manager merely O. K.'s

copy, all of which is written by a $40-a-week girl. The department also maintains two clerks, one artist working on full time, and one working on part time. The advertising manager has no control over the display manager, who is responsible to the merchandise office. The payroll of the advertising department is $22,700 a year. Mooney's advertising copy is conventional in appearance. The written matter is good and in the opinion of the chief executives it fulfils requirements.

Lucius Mainkin is the name of an old and well-established department store in a large eastern city. Its annual sales averaged around $9,000,000 during the last five years. Recently the ownership of the store changed hands. The new management feels that much of the organization and many of the policies of the Lucius Mainkin Company are out of date. The advertising office in particular is in need of revision. The question of deciding whether or not to place the advertising office on a par with the merchandise office has for the present been left unsettled. A new advertising manager will be engaged. The nature of his office will depend largely on his ability to fill it and suggestions that he may make.

Questions

1. What type of organization should be suggested?

   (*a*) In the event that the advertising office is made of equal importance to the merchandising office.

   (*b*) In the event that the advertising manager is placed under the chief merchandise manager.

Selling 24

Shawkey Company—Who Should Write Copy?

The Shawkey Company is a small department store in a northwestern city. Recently a special sale of Mackinaw coats was advertised. In the advertising these coats were described as "all virgin wool." A few days later one of this store's customers who happened to be connected with a woolen mill asked the company to verify the statement made concerning this merchandise. On investigation it was found that these coats were not all virgin wool. The advertising manager explained that the copy was written by the buyer for the men's wear department in accordance with the plan on which the advertising department had been run for a number of years. He, therefore, disclaimed all responsibility, saying that it was up to the buyer of men's wear to know his goods.

If this had been a single isolated instance, the matter probably would not have been carried further, but it happened that this was the third similar occurrence within a few months. Consequently, the whole question was raised of the relations between the advertising department and the merchandising departments. It developed that the copy in question had not been written by the buyer of men's wear, but by his assistant, who was comparatively new on the job. The buyer of men's wear had been very busy and had told his assistant to write the copy.

The president of the firm wanted to lay down the rule that in the future all copy should be written by the advertising manager or assistants directly subordinate to him. A number of buyers protested and said that the advertising manager could not keep well enough informed about all the lines of merchandise in the store to do them justice in his writeups. The advertising manager admitted that with the small appropriation at his disposal he could not very well employ special copy writers for each department. He stated, furthermore, that the advertising of the store was handicapped because the buyers did not keep advertising possibilities in mind when they went to market to get goods. He also said that, if there was going to be a general "shakeup" in the advertising arrangements, he would like to have it arranged so that he would know beforehand what the sales plans were.

Mark Small & Company operates a large department store in an eastern city. Responsibility of executives is rather more clearly cut than usual in department stores. The functions of each position are so sharply defined that the holder knows exactly what he should do. It is the policy of the company to discourage executives from concerning themselves with work that is not specifically provided for by the powers and duties of their positions.

The advertising office is on a par with the merchandise office. Both are directly responsible to the chief executives of the store, whose duty it is to secure coordination. The advertising manager has under his direction three chief copy writers, four assistant copy writers, three artists, and a display manager, together with three decorators. The advertising manager is responsible not only for all copy, but also for the store windows and for credit letters. Indeed, in a broad sense, he is accountable for the impression that the store makes upon the public. The actual copy is handled by the chief copy writers, who hold conferences with the buyers whenever the latter advertise. The advertising manager always supervises the work of his subordinates.

Recently, at the end of a season, the buyer of women's suits marked down merchandise. This mark-down aggregated $3,000 and was to take effect on a Monday morning. On the Friday previous the buyer took the suits to the chief copy writer and spent a half-hour explaining his proposed Monday's sale. On Saturday morning the buyer again went to the advertising office to see proofs, but the proofreader did not know anything about the advertisement. The chief copy writer was not in the office, and it was an hour before the buyer could get in touch with him. When asked what had become of the advertisement, for the Monday sale, the chief copy writer replied that he had not known it was considered important, and had therefore given the space to another department.

The Shawkey Company has been in business in a city of 100,000 population, in upper New York, for over 30 years. For the last 5 years sales have averaged slightly over $5,500,000. The store's advertising, which has not been extensive, has been in the hands of a girl, who has done all the work. She has been held responsible directly to Mr. Shawkey, who acts as merchandise manager, superintending the work of the 12 buyers.

The Shawkey Company has decided to advertise on a more extensive scale. An advertising manager has been hired, with authority to engage two assistants and an artist.

Questions

1. Who should write the copy?
2. How should coordination be secured between advertising and merchandising?

Selling 25

James T. Houghton & Company—Advertising Contracts

The store of James T. Houghton & Company is a department store, doing a well-established business of about $12,000,000 a year. The store carries all the merchandise usually found in department stores of its size with the exception of furniture. The Houghton Company does, however, deal in the smaller home furnishings, such as lamps, pictures, and hangings.

Mr. August Hermann, advertising manager in the Houghton store, when questioned with regard to the methods employed in making advertising contracts said that, as a rule, the store was approached by a representative of a newspaper some time in December, with a proposition for a contract for the coming year. Mr. Herman said that the solicitor usually opened his interview by stating the amount of space which the Houghton store had used in the previous year and the space it would apparently use the current year. He also usually stated the rate per line which the store had paid and which the store was paying for this space. Of course, Mr. Herman was familiar with these facts, but he said that it seemed to be a standard way for the solicitor to open his conversation. The solicitor usually followed this statement by quoting the lowest price which his paper could make for a similar amount of space in

the ensuing year. As a matter of practice, of course, Mr. Hermann was familiar with the circulation secured by each newspaper. If, however, he was not familiar with the circulation, his first question after the solicitor's opening remarks would be, "What is your circulation?" According to Mr. Hermann, the solicitor would reply with a figure representing the total number of papers printed per day. Hence, Mr. Hermann's next question would be as to whether or not the paper was on a return basis; that is, whether or not newsdealers might return unsold papers. If the solicitor answered in the affirmative, Mr. Hermann would inquire what percentage of papers taken a dealer might return. In case the solicitor said that the customary allowance was 5%, Mr. Hermann usually reasoned that the paper would probably accept 8% or 10% returns if the dealer requested it.

After having in this manner learned the approximate number of papers sold each day, Mr. Hermann would ask what proportion of this total was included in the street sales and what proportion went to paid subscribers. Learning the number of paid subscribers he would want to know, further, the area covered by the paper's subscribers and the circulation within various distances from the store, say 10 miles, 20 miles, and 40 miles.

In making up his mind how much space he would require in the paper, Mr. Hermann would consider the relative advantage to the store of street sales and of the paid circulation, and also whether the paper was published in the morning or in the evening. Department stores, he said, usually work on the assumption that advertisements appearing in the morning paper bear no fruit in sales until the day following the insertion, because people do not read the advertisements in time to change their plans for the day and come in town to shop. Advertisements inserted in the evening papers are effective in business the next day, because evening papers are read soon after they are printed and before plans for the following day are made. Even more important than the preceding factors, Mr. Hermann said, is the nature of a paper's reading public. In this regard the store must be careful to note whether or not a paper's reading public is changing as a result of changes in editorial policy, changes in the price at which the paper is sold, changes in the make-up of the front page, or in any other matters of policy that might cause readers to cease buying or begin buying the paper. In most

cities, he said, the stores are faced with the problem of duplication of circulation. The circulations of two or more papers dovetail to a great extent. In order to learn more of the reading public reached by a given paper, the advertising manager, according to Mr. Hermann, must fall back upon the lineage figures furnished by the papers. He is also guided especially by the relative standing of the several papers in regard to:

1. Local display advertising
2. Department store and specialty shop advertising
3. Automobile advertising
4. Motor truck advertising
5. Bank and financial advertising.

Automobile advertising should be watched, because persons who can buy automobiles surely can make purchases from a department store. Even if a man buys an automobile on the instalment plan, and even if he cannot meet his payments, he probably has sufficient money so that his family are able to make cash purchases in a department store. Motor truck advertising is a good index, because it shows that men read the papers, and papers carrying a large lineage of motor truck advertising are usually good mediums for the advertisement of articles sold to men.

Finally, Mr. Hermann said that in making contracts the advertising manager must compare the rate per line offered by one paper with the rate per line offered by other papers, and himself note whether or not the contract offered includes such service as the making of cuts, engravings, and other art work.

In years past it has been customary for the Houghton store to make a yearly contract with one paper for 200,000 lines, and the store signed such a contract for 1920. This contract was in the following form:

MEMORANDUM OF AGREEMENT

It is hereby agreed between the Local Advertiser signing this memorandum and the Enterprise Publishing Company that said Advertiser will use during the year ending December 31, 1920, in the *Daily Enterprise*, 200,000 or more lines of local display advertising. In consideration of this agreement the Enterprise Publishing Company will bill said Advertiser at the net rate of 30 cents per line for the advertising in the *Daily Enterprise*.

Said Advertiser and said Publishing Company both reserve the privilege of canceling this agreement at any time.

Attached to the agreement was the following schedule of prices:

Under 25,000 lines	35 cents per line
25,000 or more lines	34 cents per line
50,000 or more lines	33 cents per line
75,000 or more lines	32 cents per line
100,000 or more lines	31 cents per line
200,000 or more lines	30 cents per line
300,000 or more lines	29 cents per line

It was understood that, if at the end of the year the store had used less than 200,000 but more than 100,000 lines, its advertising for the year would be at the rate of 31 cents per line and that it would have to pay the additional 1 cent per line for each line of advertising used. If, on the other hand, its lineage for the year was more than 200,000, the store would receive from the newspaper a rebate of 1 cent per line used during the year.

In case the store inserted advertisements in the paper without an agreement such as the one quoted, it would be billed at the rate of 35 cents per line; that is, the maximum rate. Bills would be submitted monthly, and payments made monthly on this basis; then, at the end of the year the newspaper would rebate to the store the difference between the amount paid by the store for its advertising and the amount it should pay under the rate per line called for by the total lineage which the store used. Thus it is evident that the rate per line actually paid by the store was the same whether the store had a contract or not.

Mr. Henry Roberts, advertising manager of the Enterprise, stated that the advantage of this agreement to the department store is that under the agreement the store gets the benefit of being billed throughout the year at the net rate. This saves the store the interest on the money which it pays to the paper, and which is subsequently rebated because of the difference between the maximum rate and the rate which the store finally secures. In addition, billing advertisements at the net rate simplifies the work of allocating the advertising expenses to the departments. Finally, the store is protected by the agreement against a raise in the scale of rates during the life of the agreement. Even though the agreements provide for cancelation by either party at any time, it is not likely that the paper will wish to

cancel its agreement in order to substitute a new agreement with higher rates, because such action would seriously jeopardize the paper's good will.

The newspaper prefers to have agreements with advertisers, because such agreements enable it to plan for the future months more carefully and more accurately, and because the agreements enable the paper to avoid taking into consideration sums of money which subsequently may be rebated to the advertisers. The effect of this would be to mislead the paper in the matter of its net profits.

During the year 1920, Mr. Hermann, together with the other department store managers, came to believe that the advertising rates being charged by the Enterprise and by other local papers were too high, and Mr. Hermann joined with these other advertising managers in refusing to sign contracts for 1921. The memorandum agreement offered by the Enterprise was typical of the form of so-called contract used by all local papers.

Question

Should Mr. Hermann have joined with the other executives in this movement?

Selling 26

Bowditch Department Store—Advertising Media of Pardee Shoe Store—Boston Suburb

Because of its location in a Boston suburb, the Bowditch Department Store is faced with a difficult advertising problem. This suburb, like many of the other outlying districts of Boston, has no newspaper of its own. Although many attempts have been made to promote such an enterprise, they have all ended in failure because of inability to compete with the big Boston newspapers. Since these large Boston papers have a circulation covering a substantial part of northern New England, it has

seemed impracticable for the Bowditch Store, with its purely local clientele, to use these advertising media.

Since it does not seem advisable to use newspaper advertising, The Bowditch Store has restorted to distributing handbills to all who pass the store, and to have boys, after school hours, leave a handbill at each house in their district. These notices are also enclosed in the customer's packages. So many suburban stores, however, have resorted to this method of advertising that many such handbills are frequently seen lying about the streets, where they have been discarded by disinterested people. Furthermore, when such bills are distributed broadcast there is a great deal of wasted effort, because many people who receive them are commuters who trade only in Boston.

Because of the competition from the high-grade specialty shops and department stores in Boston, the Bowditch Store carries only medium- and low-priced merchandise in an attempt to meet the demands of the largest class of customers in its district. In appealing to this group, circulars distributed by mail have been resorted to, but this method of advertising has been so overworked, not only by suburban stores, but by the larger stores and national manufacturers as well, that it is questionable how many of these advertisements are read before they are thrown into the waste-basket.

The Pardee Shoe Store, located across the street from the Bowditch Store, is also faced with the problem of securing proper advertising. Last year its net sales were $51,376; the gross profit was 32%; total expense 26%; and stock turn 1.6. During the first part of the present fiscal year its sales fell off slightly, and this fact together with a too ambitious buying program has resulted in overstocking the store to the extent of $5,100. The management has decided to cut prices 30% in an effort to liquidate the overstock, in order to secure new merchandise for the coming season.

In the past the Pardee Store has tried handbill and circular advertising, but without much success. Last season it tried publicity stunts of various kinds; for example, for two weeks the sign over the store was turned upside down and all advertising and notices in the window were also inverted. Although these stunts seemed to attract considerable attention for a short time, sales were not stimulated substantially.

Questions

1. What publicity measures should be taken by the Pardee Store to insure the success of its sales?
2. Can the same publicity policy be used by the Bowditch Department Store?

Selling 27

The Wooley Store—Direct-by-Mail Advertising

Mr. Pierce, the president of the Wooley Store, a department store with annual sales of about $15,000,000, has in the last few years become more and more dissatisfied with the results of newspaper advertising. The conviction has grown upon him that the general public is more skeptical of advertising copy than is generally supposed by department store executives. He believes that the extravagant claims made by a few department stores in their advertising are harmful even to the conservative retail institutions. He believes, furthermore, that department store advertising suffers from a feeling of distrust which was created in the newspaper-reading public by the considerable volume of untrustworthy financial advertising, such as mining and oil stocks, and by the memory of flamboyant patent medicine advertisements of a few years ago.

Recently, Mr. Pierce proposed to cut down his newspaper advertising appropriations and expend the money thus saved on direct-by-mail advertising. He directed his advertising manager to look up data on the compilation and the use of mailing lists, and to submit a report of his investigation. The advertising manager suggested that the proper procedure was to draw a map of the city, showing the geographical distribution of the Wooley store's present business and its future possibilities. Next he suggested that mail-order lists should be compiled from the store records, from tax lists, telephone directories, subscription lists of the local newspapers, from lists of auto-

mobile owners, and from the membership rolls of lodges, churches, Sunday schools, public schools, fraternal orders, and the like. For the present, he did not believe that personal canvassing was advisable, nor did he feel that it was worth while to classify lists according to the purchasing power of customers, or any other such method. He suggested that the law permitted the distribution of circular mail on rural routes by simply indicating the box number instead of the mailing address. This, he believed, would prove a valuable time-saver.

The Wooley Store has done very little direct-by-mail advertising. When the project of increasing the number of circular letters sent out was taken up, there was some question whether to send sales letters to prospective customers in a typewritten envelop, bearing the company's name, or in a hand-addressed envelop bearing no identification of the sender. The executives of the company were inclined to believe that the latter scheme would produce better results. This scheme had been tried from time to time, but no attempt had been made to check up results. In order to obtain a basis for judgment, test circular letters were sent out in hand-addressed envelops, and a few of the best clerks in each department were told to question customers as to their reaction on opening these letters. Most of the customers questioned had not given the matter any thought, but a few of them objected strongly. This group felt cheated on opening what purported to be a social letter, only to find instead the regulation sales appeal.

One of the department managers thereupon suggested the following scheme: in a plain envelop, bearing no printed matter, addressed by hand, enclose a note on typical social stationery, written on this order:

Dear Mrs. Smith:

A most interesting shipment of oriental rugs has just been received. They are now ready for your inspection.

Very truly yours

T. L. Jones
The Wooley Store

The man who suggested this note felt that the absence of a printed heading or anything else reminiscent of business would

impress people by its novelty, would be more consistent with the dignity of the store than the usual sales letters, and would not be too expensive, considering its advantages over the usual letter.

The Wooley Store is the second oldest in the city and one of the best established. It has an excellent reputation for reliable merchandise and fair prices. Most of its patrons are from the upper middle classes.

Questions

1. What type of letter should be mailed?
2. Should the aim be to advertise particular lots of merchandise, or to build up good will for the store as a whole?
3. How can the results of the advertising best be measured?

Selling 28

Weldron F. Hollis, Inc.—Sales Promotion and Relation with Customers

The firm of Weldron F. Hollis, Inc., has a shoe store in an Iowa City, just outside the high-rent district. The Hollis store carries medium-priced shoes and makes a specialty of cushioned soles, shoes with arch supporters, shoes made specially for lame people, cantilever shoes, and other unusual types. The store's sales average about $75,000 a year. It does this business in a store building 25 feet wide and 65 feet deep. The reserve stock is carried in the basement. There are a number of unit shoe stores of the usual type along the main shopping street of the town, in the high-rent district. These stores are competitors of the Hollis store only in the standard lines. Mr. Hollis has been in business in this city for over 35 years and has a well-established clientele.

In the Hollis store merchandise is wrapped at the central wrapping station, of which the cashier's desk is a part. The

merchandise, together with the sales slip and the money paid, goes to this central wrapping station in overhead basket carriers. The cashier, employed to take care of this desk, does all the wrapping.

At the desk there is a card file in which the cashier, at the time the sale is made, records the customer's name, the customer's address, the number, style, size, width, and price of the shoes purchased, and any other information which will help the store to know precisely what that customer has bought in the past, and is likely to buy in the future. If the customer has been advised to buy a certain type of shoe by a physician, this physician's name is secured from the customer and recorded.

On the basis of the information recorded in the card catalog at the cashier's desk the store sends out special letters to customers, announcing the arrival of new merchandise, or of markdowns. Also, the store sends form letters to all customers in accordance with a fixed schedule. Three days after a purchase is made, the customer is mailed the following letter:

WELDRON F. HOLLIS, INC.
High Grade Footwear
Expert Fitting and Service

Your visit of a few days ago was appreciated by all of us. We are interested in knowing if everything is satisfactory.

We can't get along without pleasing you—and besides—you should receive satisfaction. Will you kindly advise us of any shortcomings—should there be any? We value frank criticism, and always stand ready to "make good."

We thank you, and are with best wishes

Cordially yours,

WFH:P

This letter is multigraphed in such fashion that it cannot be easily distinguished from a letter typed individually. It is signed in ink and has all the earmarks of a personal letter. In case no reply is received from this first letter, the store waits until seven months after the shoes were purchased and then mails to the customer the following letter:

WELDRON F. HOLLIS, INC.
High Grade Footwear
Expert Fitting and Service

We have heard nothing from you in reply to our letter of seven months ago, so naturally assume everything to be all right. Shoes bought here usually are.

Please remember, always, that we are interested in your shoes while you wear them, as we want the shoes you buy from us to fit you at all times and to render you that service and satisfaction which we guarantee.

As the time is drawing near when you will probably wish to buy new shoes, please bear in mind that our pledge of service and complete satisfaction is not confined to any one transaction, but is behind every purchase you make here.

Expecting the pleasure of again serving you soon, we are with best wishes

Cordially yours,

WFH:P

In case the shoes have been purchased on the recommendation of a physician, whether or not that physician has previously sent customers to the Hollis store, the store writes a letter thanking him for the business, and assuring him of the store's readiness to assist him in future cases.

The store has also used its file of customers' names in connection with an advertising investigation. The Hollis store has never done newspaper advertising, and has confined itself very largely to special letters and street car cards. In the past the street car cards have been used in all cars operating in the city. Recently, for general information and without any distinct end in view, the store compiled a map on which was plotted a dot for the address of each customer shown in the card catalog. This map showed that most of the customers were concentrated in several distinct groups along several car lines. Along other car lines, there were very few customers. Upon learning of this fact, in accordance with the store's theory that the least selling resistance is encountered in attempting to sell former customers, Mr. Hollis discontinued all advertising in street cars on the lines where no customers or few customers lived. Extra cards were placed in cars operating along the lines where a great concentration of customers was shown by the map.

Questions

1. Was it advantageous for the Hollis store to send out letters to its customers as it did?
2. What changes, if any, should be made in the form or wording of the letters?
3. Should the store have discontinued its street car advertising along the routes on which it had no customers?

Selling 29

The Greenough Company—Window Display

In a large middle western city one of the best department stores is that operated by the Greenough Company. This concern has annual sales of close to $12,000,000 and attracts the best class of department store trade. In 1916 the store building was remodeled to make room for more window display space. The plan for distributing rent expense to departments requires the first floor to stand 50% of the rent expense for the entire store. The window space is consequently by far the most valuable space in the building. Window rents are charged to departments according to space used by a weighted figure per square foot. The displays in the windows of this store have followed conservative lines, featuring special events, merchandise appropriate to the season, and so forth. Figures, color schemes, lighting, and arrangement have always seemed attractive.

In 1920 the Greenough Company showed a considerable loss, which seemed to the executives greater than could be attributed solely to the existing business depression. Buyers in all departments were asked to submit recommendations as to expenses which might be reduced. Reports from 10 of the departments showing the largest losses stated among other things that window display expense was too high in proportion to results obtained. In the course of a series of meetings to discuss recommendations

for reducing operating expenses, the merchandise manager, publicity director, comptroller, and display manager got together with the buyers from these 10 departments to talk over the window display problem. Buyers of those departments which made extensive use of window displays believed that a uniform charge should be made to all departments using windows instead of making the charge on the space-used plan. One buyer advanced the theory that publicity and all indirect expense should be charged to departments as a percentage of net sales based on figures for a normal year, a general reserve being established to take care of expenditures in excess of that figure. Since these suggestions were not favorably received by the merchandise manager and the comptroller, the buyers began to find fault with the window display man for not making his windows more attractive. The conversation continued as follows:

MR. ROSS (buyer for misses' dresses)—

I don't want to be understood as casting any reflections on the way Mr. Hawkins manages the window displays, but I do think something ought to be done to give them more pulling power.

MR. HAWKINS (display manager)—

Well, it seems to me that that is up to the buyers just as much as it is up to my department. If any of you have personal ideas on window displays, why don't you put them into effect? I always make a point of trying to work out any ideas that you have. After all, you know the goods, and you know what you want to "put over" to the public by means of the windows.

MR. SIMPSON (furniture buyer)—

Well, that's just what's the trouble with the window displays in this store. Any buyer can come along and try to work out his own "tom fool" ideas and the result is that there isn't any continuity or atmosphere, or anything at all distinctive, you know what I mean, about our window displays. What we need is a thoroughly consistent policy in this matter.

MR. COLLIER (buyer for women's suits)—

Now I think I can put my finger right on the real difficulty. You all know that it isn't as easy to sell goods now as it was last year. People aren't just rushing in and buying anything that's offered to them. The salesman has to size up his customer and talk pretty well to put a sale over nowadays. Now in our windows we don't get anything but a mass attack, just an appeal to all women who want to dress better or all women who are looking for bargains in suits, and so forth. There is nothing at all corresponding to the

salesperson's sizeup of the individual customer. Of course, when people were buying anything that was offered that wasn't necessary, but now it isn't surprising that the same kind of window displays that this store has always been running are not getting people off the sidewalk and into the store. Now, I don't know much about this display business, but it seems to me that we might get a little more individuality into it. Why don't we have a display of clothes particularly suited to blondes for one week, and then brunettes another week, and so on—tall women, short women, and that sort of thing?

You know it makes a lot of difference in colors and stripes, and checks and things whether a woman is a blonde or a brunette, or whether she is tall or short. Why can't that idea be carried out? Then along that line, isn't there some scheme that can be used to create some continuity of interest in our windows from day to day and week to week? For instance, take some fictitious person and follow through his or her career from childhood to old age and stretch the thing out over a couple of weeks so as to get people looking to see what will come next. Give the person a name and pull some news story stuff about it in our newspaper advertising.

Mr. Harper (buyer for shoes)—

Since we are on this line of discussion, there is another thing that I have been thinking about off and on sometimes, and that is that we make a mistake in always exhibiting stuff suitable to the current season. We ought to anticipate more. What I mean is, when there is a big snow storm on why not have something bright and cheerful suggesting spring in some of our windows? I don't think you have got quite the right psychology in our present system.

Mr. Hawkins—

Well, now just a minute. I admit that this store needs a more consistent display policy, but what I want to know is, how in thunder any display manager can work out these elaborate plans that have been suggested when more than half the time he doesn't know more than a couple of days beforehand what merchandise is going to be displayed and what events are coming off and when he has to deal with a lot of "pig-headed" buyers who think they know just how it ought to be done.

I tell you, if anything like what you have been suggesting is going to be worked out, we have got to have a lot more cooperation around here, and I wish we had a more definite policy about some of these things. Now, for instance, how about all that load of junk the Hector Phonograph Company is shipping here? You know all those reproductions of scenes from grand opera that they expect us to give up a lot of good window space to to help sell opera records. That isn't going to fit in with a single thing that we are running next week, and anyway . . . .

Mr. Fergus (buyer for men's furnishings)—

Now, just a minute, Mr. Hawkins. It seems to me that we are getting pretty much off the point. What I would like to know, and I am sure it will interest the rest of us also, is just what are the items that make our display expenses so high. Of course, we know that there is a big rental charge—there is no getting around that—but there must be some other pretty big items there somewhere. How about it, Mr. Hawkins?

Mr. Hawkins—

Well, of course, the salaries of window trimmers, carpenters, etc., come pretty high these days, and you know you can't always tell what one of these windows is going to look like until you get it all fixed up and then the effect may be all wrong. When you are dealing with all kinds of different colors and trying to get something that will look good both at night and in the daytime, it isn't always easy to hit the right combination right off the bat. Of course, that tends to make the salaries and wages high.

Mr. Ross—

I don't see that we are getting anywhere in this discussion and it is getting late. Why not have a committee appointed to look into the matter very thoroughly and make a report on some definite recommendations for window display?

Mr. Ross' suggestion was adopted and a committee appointed, consisting of the publicity director, the merchandise manager, the display manager, and the comptroller.

Question

What general recommendations should this committee make?

Selling 30

The C & C Stores, Inc.—Chain Grocery Store Advertising

The C & C Stores, Inc., with headquarters at New Haven, Connecticut, was one of the first firms in the country to operate grocery stores on the cash and carry principle. The company was incorporated in 1913, and during the war expanded rapidly in the industrial towns and in the more densely settled rural districts of Connecticut. By 1921, the chain was operating 279 stores, almost all of which were reached by some of the lines of the New Haven system.

All buying was done at the company's offices in New Haven, and all merchandise was carried in the warehouse there. Deliveries from the warehouse to the stores were made by motor truck to stores which ordered large quantities, and deliveries to other stores were made by rail.

In the cities and in rural communities adjacent to cities, the superintendents, as a rule, visited each store each day. In districts farther away from the cities where stores were widely separated, however, the superintendents frequently made only one visit a week to a store. In these more distant and scattered stores the management in 1921 was experiencing considerable difficulty in controlling prices. It was discovered that in several stores unscrupulous managers were selling merchandise at higher prices than those set by the chain, since the low prices at which the chain was selling merchandise made it possible for managers to charge more and still undersell local unit stores. Similarly, store managers were suspected frequently of maintaining prices without reduction for some time after they had been ordered by a bulletin from headquarters to mark goods down. The method suspected was as follows: The store manager, in Monday morning's mail, would receive an order to mark down butter 2 cents a pound. He would take an inventory of his stock of butter on receipt of this bulletin and send in a report of the amount on hand in order that he might be credited properly on the books at the office. He would, however, continue to sell butter at the higher price until a short time before he expected the superintendent to arrive. In a country store, where several days might elapse between the time a bulletin was received and the time the superintendent arrived, the manager might dispose

of a substantial amount of goods and thus make for himself a considerable sum.

At the time when the management began to suspect that these methods were being practiced to a considerable extent, the only means of price control was through the check secured by the observation of the superintendent in his regular visits. It was then suggested that the chain advertise whenever changes of price were made, using the daily papers in the larger centers and the small-town weeklies in places which the daily papers did not reach. Through these papers it was hoped that the chain might prevent managers from maintaining prices dishonestly after a mark-down had been ordered. These advertisements would advise people that prices had been reduced, and it was expected that the people would refuse to pay more.

In order to minimize the possibility of managers securing extra profit by regularly selling the merchandise for more than the chain intended, it was suggested that the chain publish a weekly paper. Going out as it would only once a week, this paper could not usually announce special sales and special mark-downs, for they were generally made on the spur of the moment, with not more than 48 hours' notice. It was suggested that this paper have eight pages, each page being about 8x10 inches. The paper would contain interesting items about grocery products, one or two serial stories of interest to children, a puzzle page for children, a column of recipes, a column of household hints, and a page of comics.

There would be advertising of the store's merchandise in quarter- and half-page advertisements throughout the paper, and it was planned that the total of these store advertisements should be about two pages. These advertisements would usually be merely announcements of merchandise and prices. This paper was to be distributed to the various stores and there placed conveniently on the counters where customers would pick it up and take it out with them.

In the past the chain had done no advertising. It was pointed out, however, at the time these suggestions were made that the newspaper advertising and the store paper would keep the name of the chain before the public and announce the special leaders, thus serving as a medium for sales promotion as well as price control.

Questions

1. From the point of view of price control, should the chain have adopted this suggestion?
2. Should it have attempted to combine sales promotion with price control in its advertising?

Selling 31

Bender Company—Educating Consumer on Cost of Doing Business

The Bender Department Store in Philadelphia does a business of about $15,000,000 annually. It is a very conservative establishment and handles merchandise of good quality.

During 1919 the cost of doing business in this store was very close to 30% of net sales. In May of 1920, when a number of department stores of national prominence slashed prices 20%, the Bender store was very reluctant to follow suit. Some price reductions were made, but not many. In consequence the owners of the Bender store were stigmatized as "profiteers" by some of the less responsible newspapers of the city. These papers even went so far as to begin agitating for a state law to compel the marking of all merchandise with cost prices and to make it a misdemeanor for any salesperson to refuse to state or to state incorrectly the cost price of any piece of merchandise when asked by a customer. Although there was no chance of the Legislature even considering such a law, nevertheless the members of the firm of the Bender Company felt that these manifestations in the press were indications of a state of mind among the general public which might eventually cause retail stores much embarrassment and difficulty.

The executive head of the firm sent a memorandum to the publicity director asking his opinion on the feasibility of endeavoring through the store's advertising to educate the public as to the

cost of doing business. He called attention to the advertising of the large meat-packing houses and some public service corporations in which diagrams showing graphically "where the consumer's dollar goes" were prominently featured.

Question

What points should the publicity director consider in replying to this memorandum?

Selling 32

Mark Small and Company—Legislation Against Misleading Advertising

The following bill was introduced in the Legislature of an eastern state in 1921:

A BILL prohibiting fraud upon the public by making or disseminating false statements or assertions concerning any merchandise, commodities, securities, or service, and providing penalties for the violation thereof.

Be it enacted, That if any person, firm, corporation, or association, in a newspaper, periodical, circular, form letter, or other publication, published, distributed, or circulated in this state, knowingly makes or disseminates or causes to be made or disseminated any statement or assertion concerning the quantity, the quality, the value, the merit, the use, the present or former price, the purpose or motive of a sale of any securities, merchandise, articles, commodity, or services, or concerning the method or cost of production or manufacture of such merchandise, articles, or commodity, or the possession of rewards, prizes, or distinctions conferred on such merchandise, or the manner or source of purchase of such securities, merchandise, articles, or commodity, or services that enter into interstate or foreign commerce, which is untrue or calculated to mislead, shall be guilty of a misdemeanor, and upon conviction thereof be sentenced to pay a fine of not more than $1,000 or by imprisonment for a period not exceeding one year, or both fine and imprisonment, as the court may direct.

Sec. 2. That this Act shall be in effect from and after its passage.

Subsequently an amendment was proposed to strike out from the text of the bill the word "knowingly."

The advertising office of Mark Small and Company, situated in a large city of this state, is on a par with the merchandise office. Both are directly responsible to the chief executives of the store, whose duty it is to secure coordination. The advertising manager is responsible for all copy, which is written by copy writers under his direction. Buyers consult with copy writers whenever advertisements for their departments are in the making. They bring up to the advertising office the merchandise to be featured, discuss it with the copy writers, and turn it over to the artists in case pictures are wanted.

Question

Should Mark Small and Company support the bill?

(*a*) The amendment?

Marlow and Michaelson Company operates a department store in the same city. The advertising office is subsidiary to the merchandise office. Buyers write all the copy, subject to revision by copy writers, who concern themselves primarily with such technicalities as layout and type. The advertising manager O. K.'s all advertisements. If he is dissatisfied with the text submitted by a buyer, he takes the matter up with the merchandise manager.

Question

Should the Marlow and Michaelson Company support the bill?

(*a*) The amendment?

C. CREDIT

Selling 33

Hotchkin Department Store, Ericson Department Store, Marten Department Store, Esterman Department Store—General Credit Policy

The Hotchkin Department Store grants credit as a means of increasing its sales volume. It has a reputation among its customers of being lenient in opening new accounts. Notices are posted in the elevators that the store will be glad to extend credit facilities to customers who may desire them. This liberal credit system has been followed because it is believed that customers will buy more merchandise if they have a charge account, since it is often easier to say "charge it" than to pay cash. This store also has a liberal collection policy, for it is anxious not to offend its customers. In the case of wealthy people who buy large amounts of merchandise, bills are frequently allowed to run six months or even a year without definite action being taken by the store.

On a slightly different basis is the credit policy of the Ericson Department Store. This firm grants credit merely as a convenience to its customers and is careful not to extend credit privileges to people who are unable to pay their bills promptly at the end of the month. The directors of this store are convinced that it is the wrong policy to aid or encourage people to live beyond their means. Consequently, the Ericson Store never advertises or posts notices that it will be glad to extend credit. Collections are made promptly in the same manner as if the firm were operating a bank, but care is taken not to offend unduly. It is rare, however, that personal visits of a collection agent are required, since in opening an account a customer must furnish proof of a permanently established income, and, in the case of industrial workers, give evidence of savings and thrift.

The Marten Department Store, having a stiffer credit policy, opens accounts only when customers urgently request this service. The store is strict in making collections, treating all its clientele alike, regardless of their station in life. It expects the payment of bills by the 15th of the following month, or an explanation as to why these bills have not been met. If the

amount due is not paid within 15 or 30 days, the store's collector calls on the customer. In these visits great care is taken not to offend anyone, but the collector sizes up the situation and determines how soon the account should be paid.

The Esterman Department Store refuses to grant credit in any case and sells merchandise for cash only. The managers state that the average middle-class person with whom the store deals does not appreciate the credit facilities which might be granted him. They point out that one of the most common ways of losing a friend is to lend him money and then either fail to collect or arouse his ill-will by continual "dunning." These men assert that the important thing in retail trade is the price appeal, and they feel certain that people will buy where the price is lowest. Since credit and other services of this type cause higher operating expenses, the managers of the Esterman store are convinced that they would not be able to offer merchandise at the present prices except on a cash basis.

All these stores are located in the same city. The first three stores cater to approximately the same class of trade, but in the case of the Esterman Company, although it sells to some wealthy customers, its clientele generally does not buy as high-grade merchandise as that offered by the other stores.

Question

What factors should a department store consider in deciding what credit policy it should adopt?

Selling 34

Statler & Statler—Sales Promotion by Granting Charge Account Privileges

The firm of Statler & Statler owns and operates a specialty shop in an eastern city doing a business of approximately $2,000,000 a year. In the past the store has sold for cash only. It carries merchandise of good quality and makes a specialty of up-to-date styles. This policy, however, has never been carried to an extent demanding unusually high retail prices, and the store has never striven to become the exclusive type of specialty shop.

In the summer of 1921, the store had 35 employees and was occupying four floors; the lower three were given over to selling, and the offices, receiving rooms, and stockrooms occupied the fourth. The manufacturing industries of the city were so varied that retail business there had felt the business depression less than stores in other localities.

In spite of the fact that retail business in the city was holding up fairly well, the store's sales in dollars and cents were decreasing, and the management had gathered statistics which showed that this decrease in sales was greater than normally might be expected because of lower prices.

The decrease in sales without any corresponding decrease in the cost of operating the business had made it necessary either to increase sales or to cut down expenses. The manager of the store did not wish to lower the morale of his employees or break up the organization, and he was afraid that either lowering wages or greatly decreasing his force of employees would have both these effects. He was, however, using the necessity for retrenchment as an excuse for weeding out the inefficient people on the selling force. He considered this method much less dangerous than lowering the wages of the entire force; he discovered, however, that there were only a few who could thus be discharged, and that the policy hence had little effect upon his selling cost.

The store had lowered prices until it was giving as good values as any store in the city. For the style and timeliness of its merchandise the store continued to have a deservedly good reputation.

For a considerable time the store had been budgeting sales and expenses, including advertising. The advertising expense ran rather high, but the manager thought that it would not be safe either to decrease the quantity or to lower the quality of his advertising. He complained that advertising rates in the city were unreasonably high. The city merchants had, however, found it inadvisable to bank together in order to force lower rates because of the fact that someone always had broken the "gentlemen's agreement."

One of the buyers, who had been with the firm for a number of years and who was frequently taken into the confidence of the manager, suggested that a departure from the strictly cash policy might help the situation. He suggested opening charge accounts with customers whose credit position was unquestionable, as a means of getting additional business from them. He also believed that the additional service would attract new customers. His chief argument, however, was that from 35% to 60% of the present cash customers would open charge accounts, and that a large majority of these customers would buy more if they could charge purchases than they did when they had to pay cash; especially, he said, would this be true of customers making purchases in the dress and suit department. Women frequently came to the store with a given amount of cash, say $25. They found that the suit or dress which they wanted was priced at $30 or $35, and because they could not charge the difference they went elsewhere for the dress.

The manager was inclined to believe that it would be poor policy for the store to change from cash to credit, not only because the general expenses of running the business would be increased through added office expense, and loss from bad debts, but also because the proportion of returned goods probably would increase. The store had been having no trouble with returns. In addition, the manager said that in a time of depression it was poor policy to extend additional credit.

Questions

1. Should the store have adopted the policy of opening charge accounts?
2. If not, what methods of sales promotion should it have used?

Selling 35

Newton & Woodstock—Credit Policy in Unit Grocery Store

The grocery store of Newton & Woodstock is located in a suburb of Chicago about 15 miles from the loop district. The suburb is a manufacturing town of about 25,000 population. Of this population a large proportion is composed of wage earners of foreign birth or of foreign descent who work in the factories. The remainder is largely old settlers who have retired or who are engaged in business in Chicago.

The section of the city occupied by this latter class is adjacent to another suburb which is one of the best residential suburbs of Chicago. Near both these towns on the side away from Chicago, is a considerable area given over to estates and country places of Chicago people.

The business of Newton & Woodstock is divided about equally between cash sales and credit sales. The cash sales are made largely to the wage earners in the factories, while the credit sales are made mostly to the older residents of the suburb, the well-to-do retired population, or to people residing in the residential suburb adjacent. In the town in which the store is located, a considerable volume of charge business is done with the foremen and minor executives in the factories.

At present, as in the past, applicants for credit come to the bookkeeper's desk and state their cases. In granting credit the bookkeeper has had no rules, no fixed requirements. He sizes up each person individually, and asks such questions as he thinks will give him the best basis for judging that particular applicant. He almost always asks the applicant where he has been trading. If the risk appears to be at all questionable, he follows this up by asking the size of the family, how many in the family are working, and what rent the family pays. In this manner one question leads to another and the bookkeeper gets a fair idea of whether or not the applicant is a good credit risk. He states that he rarely, if ever, asks a man what salary he is getting and whether or not he has a bank account. He may ask if the man owns real estate, but he does not ask if the real estate is mortgaged, or if insurance is carried on buildings or furniture. The bookkeeper, however, makes generous allowances to cover these possibilities.

Questions

1. What steps should the Newton & Woodstock store take to determine whether or not its losses from bad debts are too large?
2. Assuming that its losses from bad debts do not appear unusually large in proportion to sales, what changes, if any, should be made in the credit policy?

Selling 36

Waldo Grocery Company—Credit Policy of a Chain

Most grocery chains have refused to follow the practice of many unit grocery stores in granting credit to customers, but instead have usually operated on a cash basis with no delivery service. Many of the stores in grocery chains are only one- or two-man stores, and all extra service is usually eliminated. Highly perishable products, such as fresh fruit and vegetables on which losses frequently occur, are not carried in stock, the chain drawing its clientele almost entirely because of price appeal on staple groceries.

In contrast to this policy some of the shoe companies, operating chain stores, have followed the practice of most department stores in granting credit to their customers. The Lehman chain, for example, operating 22 stores in a large eastern city and carrying men's and women's shoes in both the staple and latest style models, maintains a credit department. This company is a member of the local retail credit association and grants credit to its customers on practically the same basis as the department stores in the city. In selling its high-priced shoes, almost half the transactions are made on a credit basis.

The Waldo Grocery Company plans to open a chain of 50 high-class grocery stores in the larger cities in New Jersey. These stores are to be located in the residential districts and will carry high-grade fancy groceries and imported goods. Great

care will be used to sell only the best grades of merchandise, and the store managers as well as the other employees will be carefully selected with a view to the wants of the class of people they must serve. Delivery service is to be furnished without extra charge, and the company will attempt to make a quality rather than a price appeal. Most of its clientele will probably be salaried people who live in the residential districts in which the stores of the company will be located.

Questions

1. Should the Waldo Company extend credit to its customers?
2. If so, upon what basis should this service be granted?

Selling 37

Morey's—Credit Policy of a Specialty Store

One of the largest department stores in the East handles its credit accounts as follows:

Accounts are solicited through salespeople and superintendents, the latter being furnished with application blanks which they urge all likely prospects to fill out. If possible a conference is then arranged between the person desiring to establish the account and one of the credit manager's assistants in the latter's office.

References are carefully investigated. The account is usually granted on the strength of a favorable report from the applicant's bank alone. If the applicant has no checking account his employer is consulted. If he is in business for himself the rating of his business is looked up. Personal references are resorted to only if all other sources fail. In no case is an account at a competing store regarded as a satisfactory reference.

The system of following up slow-paying customers is simple: On the 15th of the second month after a bill is due the customer receives another statement. On the 15th of the next month he

receives a mild letter calling the matter to his attention. On the 10th of the fourth month he receives another letter which is also most considerate in tone. On the 20th of the same month a slightly sharper note is sent to the delinquent. On the first of the fifth month one of two letters is sent. The first goes to delinquents who have still continued to buy. It is in effect a "stop" letter, but it is not sent as a rule to people of means. The second goes to customers who have not been buying since they stopped paying their bills. Finally, there is a letter in more or less legal form signed by the credit manager advising the customer to settle his account to avoid incurring great expense.

Up to this the treatment of all cases is mechanical. From now on it is personal, adapted to each individual case. Collectors and the telephones are liberally used in an attempt to recover. Legal action is resorted to only after all other means have failed, but the company does not hesitate to sue if it must, even if the unpaid bill is a small one.

Morey's, a specialty shop handling high-class women's wear exclusively, located in the same city as the department store mentioned, has been having some trouble with bad accounts. This store has been in the habit of granting credit to anyone who has had an account at any department store, provided the latter's credit manager gives a favorable report.

Questions

1. Should the specialty shop refuse to grant credit on these terms?

2. To what extent is the follow-up machinery of the department store adapted to the specialty shop?

SELLING 38

WILLIAM FERGUSON & COMPANY—PROPOSED NEW METHOD OF HANDLING CHARGE SALES

The Ferguson Department Store does an annual business of from $2,500,000 to $2,750,000. It has 49 departments and handles practically all items in ready-to-wear for men, women and children, as well as dry goods, domestics and notions. The store does not carry anything in home furnishings, kitchenware, or glassware and crockery. A large credit business is done. For some years a tube system was used for authorizing charges. That system seemed slow, and it was discarded in 1914, for a telephone system.

In addition to the installation of telephones, the plan was adopted of issuing identification coins to all customers having charge accounts. For transactions under $10 the presentation of the coin was sufficient authorization. This device greatly facilitated the handling of charge transactions and resulted in faster verification in cases where the telephone had to be used because the amount of sale was more than $10.

This system was not, however, entirely satisfactory, and one of the company's executives worked out a plan which would substitute a coupon book for charge accounts. This executive proposed that whenever a customer desired credit, she should go to the credit office and make application there in the customary way. The same questions would be asked and the same information required under the new scheme as under the old. If it was decided to grant the customer credit, she would be issued a book similar to the mileage books sold by railroad companies, containing coupons in dollars-and-cents denominations. The size of the book would vary with the amount of credit which the store deemed safe to grant to the customer. On receiving the book the customer would be required to sign a receipt for it, which receipt in effect would be a 30-day promissory note. When making purchases with this book the customer would present it to the salesperson, who would detach sufficient coupons and treat them as cash in the store system. The sale would be entered on a regular cash sales slip and there would be no distinction in the store accounting between sales made for coupons and sales made for actual money.

There would be a settlement with the bookholder at the end of each month. At that time the store would send to the person holding the book a bill for the entire amount of the book. In settling this bill the customer could pay in full and use the rest of the book at her convenience; or she could turn in the unused portion of the book, which would be accepted in part payment of the bill; or again she might pay for the part of the book used and sign a new receipt for the part retained. On one of the inside covers of the book there was to be provided a form in which the customer or the salesperson could record items and amounts of the various transactions in order that the customer might know just what had been purchased on the book.

In presenting this scheme to the board of directors the executive who devised it stated the following advantages:

In the first place under the new arrangement all sales would be treated as cash sales. There would be a saving in the printing of sales slips, in the auditing office, and in all the statistical services throughout the store which had to do with sales.

Secondly, all authorizing would be done away with and the authorization equipment disposed of and employees freed for other work.

Third, in case it was necessary to go into the courts to collect an account, the store would have a better legal document on which to act. A promissory note would be substituted by the new scheme for an open book account which the customer can always question.

Fourth, there would be a distinct saving in time by the elimination of authorization; and faster selling on the floor would result in added convenience to both customer and salesperson.

Fifth, losses from bad debts would probably be materially reduced.

Sixth, customers would be unable to run over the credit limit set by the credit department. When the book was empty, it would be impossible for the customer to secure additional credit without signing for the new book at the credit office. Under the old arrangement, when charge sales of less than $10 were not authorized, a customer might come in after her purchases had equaled her credit limit and in the course of one day make a number of purchases of less than $10 each. These would not

have to be authorized, of course, and the store would not know that she had exceeded her limit until the next day.

Finally, the force in the credit office, which included interviewers, authorizers, and accounts receivable posters and billers, would be reduced from 10 to 12 to about two.

In the discussion at the board meeting, it was brought out that many customers opened charge accounts in order to avoid carrying cash, and that this coupon book would be the same as money. If lost it might be used by the bearer. The decision of the board on this matter was that the customer would probably offer strenuous objections to the use of the book. In addition, one director pointed out that the system would fall down completely if the customer left her book at home. She might be a person who had dealt with the store for years and had had a charge account under the old system. Under the new system, if she came in without a book, she could not secure merchandise, and she would, most certainly, be offended. Finally, the concensus of opinion at the meeting was that if a customer lost a book, and if that book were later used by another, the customer to whom the book was originally issued would be certain to protest payment when the bill was rendered at the end of the month. Of course, it would be possible for the store to go to law to collect and practically any court would give the store judgment. This procedure, however, could not be attempted without seriously endangering the store's good will. It was felt that the losses through this sort of trouble would be greater than the losses from bad debts under the existing arrangement

The board of directors finally decided against installing the system.

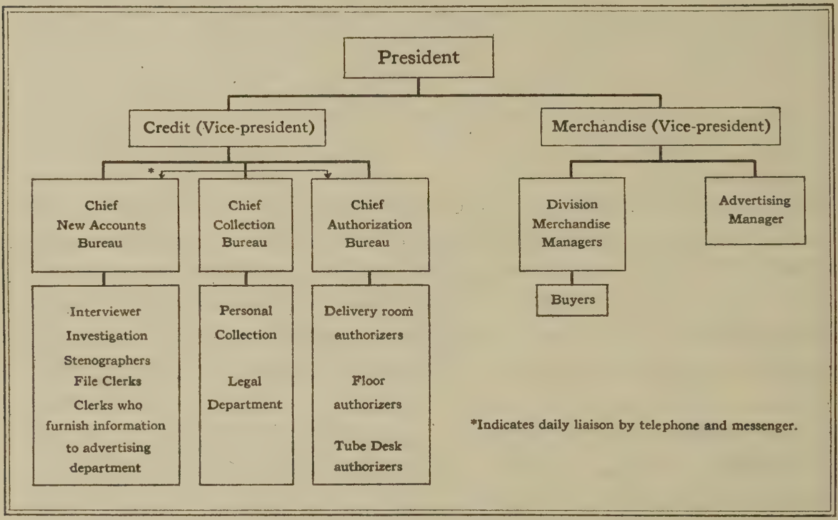
Questions

1. What advantages and disadvantages in addition to those listed above would accompany installation of the system?
2. How could any of the disadvantages be avoided?
3. Should the store have adopted the system?

Selling 39

Waterman & Wilkins Department Store—Organization and Policy of Credit Department

The following skeleton organization chart shows how, in the department store of Waterman & Wilkins, the functions of the credit department are divided among its various workers and the position of the advertising department, which has charge of all sales-promotion work.



FORM No. 48. Waterman & Wilkins—Skeleton Operation Sheet

In this store the credit department is made up of experts who pass on the applications for charge accounts. It includes the authorization bureau, because the work of that bureau is intimately connected with the determination of what customers should be granted credit. The third branch of the credit department is the collection bureau. The general manager of the store believes that sales-promotion work and the adjustment of complaints are functions entirely separate from that of the credit department and that the credit manager cannot give adequate attention to the work which he should normally perform if he is burdened with such problems.

In the Waterman & Wilkins store no special inducements are offered to secure charge customers, for the manager considers that

this procedure leads to the granting of credit loosely. If the store solicits such accounts actively it cannot insist upon detailed information. The management has observed that stores which make an effort to secure charge customers rarely go very deeply into the standing of the prospects. When the credit departments of these stores approve an account, they judge it by the section of the city in which the customer lives and by the external appearance of financial worth. Some even have been known to send out a coin without any apparent investigation. Waterman & Wilkins consider this policy to be inexcusable, excepting in cases where there can be no question as to the standing of the person to whom the coin is sent. Even then, moreover, the entire transaction must be handled with great care if the store is to maintain its dignity.

In the store of Waterman & Wilkins a customer desiring to open a charge account must call in person at the office of the credit department to make application for the account, or at least must be interviewed personally at some time before the account is opened. The credit department aims to eliminate all preventable risk in its accounts receivable, and unless it feels that an applicant is a proper credit risk, the application is not granted. Even after an account has been opened, the credit department watches closely that account and the standing of the person to whom its privileges have been given to make sure that a risk once good remains good. The credit department also watches the various accounts closely to see when any of its charge customers cease buying, or tend to decrease their purchases. When such cases are found, the circumstances are brought to the attention of the advertising department, which takes proper action.

The credit department always has a veto and its veto is final and absolute. It is solely responsible for the losses from bad debts. All the other departments recognize this and they rarely seek to override its veto.

In spite of this conservative credit policy, the general manager feels certain that charge customers purchase decidedly more per capita than do cash customers, even though he has no statistics to back up this impression.

Questions

1. Should this store seek means of increasing the number of credit customers?
   (*a*) If so, how?
2. Should the advertising manager have charge of the writing or the revising of letters written by the credit department?
3. What would be the advantages and disadvantages of such an arrangement?

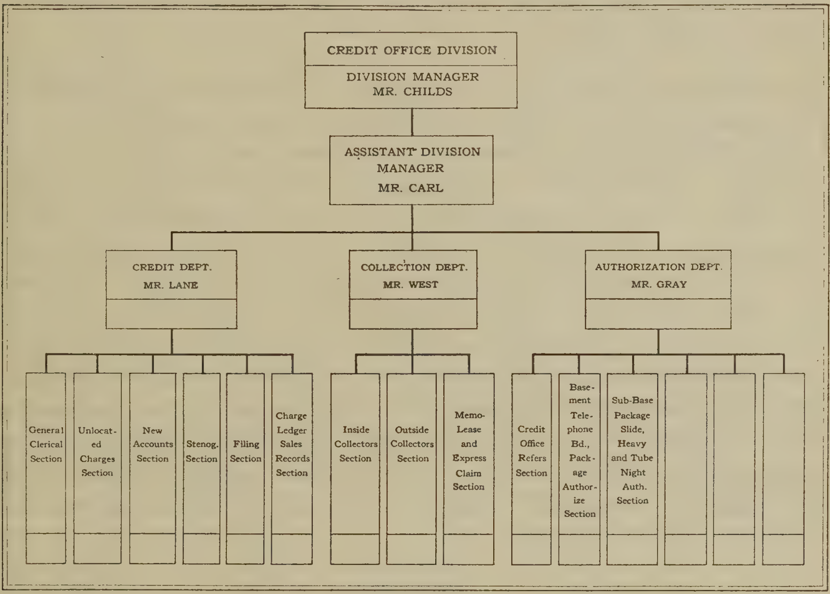
Selling 40

MacDowell Department Store—Organization of Administrative Departments and Contact with Rest of Store—Credit Department

In the organization of the MacDowell Department Store, the credit department is placed under the supervision of the controller. This store, which is in a large city on the Pacific Coast, has a yearly sales volume of slightly less than $19,000,000. The board of managers believe that the main functions of a credit department are to keep a record of charge accounts and to make collections. They feel that this work can be done most successfully if the credit department is placed under the executive who is responsible for the proper keeping of all accounts and who handles all financial matters for the store.

At the head of the credit department is the credit manager. He is responsible for administering the credit policies in such a way that the services desired will be rendered and at the same time abuses of the system will be prevented and the reputation of the store upheld. He has an assistant who interviews the people desiring to open charge accounts, questions each applicant as to the amount of his income and the probable value of any property owned, and determines the moral risk involved in extending credit to this particular individual. This assistant

also looks up the record of the applicant at the other stores in the city and, if necessary, secures the aid of a credit agency in order to obtain information concerning the size of the house occupied by the applicant, the amount of rent paid, and the applicant's bank rating. Another assistant has charge of all credit correspondence. In case a bill is not paid when due, it is the duty of this assistant to see that the proper letter is written to the customer and that the account is followed up until some settlement is reached. Only as a last resort is an account turned



FORM No. 49. MacDonald Department Store—Administrative Departments Organization Chart

over to a collection agency. A force of bookkeepers in this department attends to the charge accounts and sends out the monthly bills to customers. The authorization index also is kept in the credit office. This index is of the standard visible type, and contains all the names of the store's customers who have charge accounts, with the credit limits allowed. The names of customers who have failed to pay their bills are entered on red cards, those who have a limit below \$50 a month are on blue, and customers of the same name with only a different address or middle initial to distinguish them are on yellow cards.

When a customer wishes to charge an order of merchandise, the salesperson telephones to the authorization division and a clerk looks up the customer's name to find out the limit of credit authorized. In case the customer has exceeded her limit, or has failed to pay her bills, the matter is referred to the credit manager, who may extend or withhold the additional amount of credit as conditions warrant. If the customer has not exceeded her credit allowance, the clerk authorizes the salesperson to make the charge. Authorization for charging merchandise that is to be delivered is made on the sales slip before the goods are sent out of the store.

About a block away and on the opposite side of the street from the MacDowell store is its largest competitor, the Coggshell Department Store. This latter firm has an annual business of about $2,500,000 more than the MacDowell store, but it caters to the same class of trade. Although the Coggshell store maintains the same internal organization of its credit department as that described above, it places the credit division under the contact of the office manager instead of the controller. They feel that the credit manager should be familiar with the office routine of letter writing, sending out bills, keeping accounts, and allowing for claims and adjustments, and that to do this work successfully, the head of the credit department must cooperate with the office manager. It is the policy of the Coggshell store to fill any vacancy in the position of office manager by promoting the head of the credit department, thus insuring cooperation between these two executives.

Questions

1. What are the advantages and disadvantages of the location of the credit department in the organization of each of these stores?
2. Would it be advisable to make any changes in the internal organization of the credit department?
3. What additional contacts between the credit and sales departments might be advisable?

Selling 41

Credit Policy—Establishment of Charge Accounts

It has been frequently maintained by store executives that the extension of credit privileges to responsible customers is of assistance in increasing the volume of sales, on the ground that if a woman has $50 in her purse with which to do her shopping, she will probably not pay over $40 for a suit and may pay less if she decides that she also needs a hat, a pair of shoes, hosiery, or underwear. A customer who has a charge account, on the other hand, is not expected to limit the amount of her purchases so rigidly.

Although the credit manager of the Sininger store is fully aware of the assumed value of charge accounts in building up a large volume of sales, he is disturbed because of the rapid increase in the proportion of customers who demand credit. Furthermore, it is evident that many of the store's clientele are living beyond their means. At the end of the month they come into the store and pay a certain amount, but many of the bills run on from month to month at approximately the same size, or with the balance against the customer gradually increasing.

The credit manager fears that since 42% of the store's business is done on credit, he will lose many customers if he attempts to curtail the amount of credit allowed those customers "who have paid something on account," but who still owe the store for the balance of their monthly bills. When he attempts to hasten the collection, the customers often threaten to trade elsewhere. Many of the balances due the store are not large enough to warrant a lawsuit, but their combined total makes a substantial figure which places a serious burden on the finances of the store.

Question

What steps should be taken by the credit manager of the Sininger store to remedy this condition?

Selling 42

Sawyer Department Store—Credit Policy—Limiting Credit to Customers with Income of Over $3,000

It is the policy of the Sawyer Department Store to grant credit to any customer who has a bank account. When a customer applies for permission to open a charge account, she is interviewed in a private office by the assistant credit manager and asked the amount of her income, its source, and the size of the family that this amount of money must support. She is also asked the amount of property she owns, and whether or not she has a bank account, or charge accounts at other stores. After the applicant has left the store, the credit manager gets in touch with the secretary of the Retail Credit Association, who furnishes information with regard to the applicant's record with other stores in the city. If the credit manager thinks it necessary, the secretary of the credit association has a special investigation made to determine the applicant's bank rating, the size of the house occupied, and the probable amount of rent paid. This latter service is performed upon payment of a small fee. Ordinarily, however, credit is granted without further question if the applicant can satisfy the credit manager that she has a steady income and a bank balance.

For the past four years the amount of money outstanding on charge accounts has gradually increased. A number of people with small balances due the store have stopped having purchases charged and are paying cash. Letters calling attention to the amount due on account have been ignored, and the credit manager fears that if he adopts a more stringent policy, the store will lose even the cash trade of these customers. The Sawyer store has a reputation among the townspeople for being "easy going."

Recently another large department store adopted the policy of refusing to grant credit to anyone whose income is less than $3,000 a year. If this policy were adopted by the Sawyer Store, it would cut its number of charge accounts in half and thereby would reduce the amount of credit extended to its customers by about $176,000. Most of the people who are buying merchandise for cash and ignoring the amounts due the store on their charge accounts would fall within the class whose credit would be stopped if the policy of the second store were adopted.

Questions

1. Should the credit manager of the Sawyer Department Store refuse to grant credit to any customers whose income is less than $3,000?

2. What steps should the credit manager take to remedy the present situation?

Selling 43

Weston Bros.—Credit Policy—Collections

For a number of years Weston Bros. have built up a reputation for square dealing. For example, they frequently have advertised in the local papers that a child will receive as careful consideration and treatment as an adult, and that any merchandise that does not wear as represented or is unsatisfactory can be returned.

In allowing its customers to open charge accounts, this firm tries to be conservative. Only those members of its clientele who have a recognized financial standing in the community, or who have a regular and substantial income, are granted full credit privileges. Customers with a large family and a small income, or those whose wages may vary from week to week, are ordinarily not given a regular charge account. In case such customers desire to purchase furniture or household goods for which they are unable to pay at once, they are permitted to take the merchandise from the store upon agreement to pay a certain sum each week.

In handling its credit correspondence, Weston Bros. have developed a standard paragraph system. About 250 paragraphs have been drawn up covering most of the standard credit conditions, with enough opening and closing paragraphs to have some variety from which to choose. On the first of each month the bills are sent out to the charge customers. If a check is not forthcoming, a second bill is sent out on the first

of the second month, calling special attention to the balance due. Three months after the bill is due, the credit manager makes a note for his stenographers on the paragraphs he wishes included in the next letter to the delinquent customer. A month later, if there has been no reply, a second letter is sent out, followed after a 2-week period by a third, and 10 days later by a fourth.

If no satisfactory explanation or adjustment has been made by the end of the sixth month, the matter is turned over to a collection agency for settlement.

At the end of the third month after a bill is due, if a customer attempts to charge merchandise to her account, she is usually asked if she will kindly consult with the credit manager in the office.

Weston Bros. have a varied clientele, in a large city in the Middle West. A substantial number of the firm's sales of household goods and furniture are made on the instalment plan to people of moderate means. Over half its customers are office workers and professional men whose incomes are on a salary basis. An important part of its clientele, although smaller in actual numbers, is made up of a wealthy class of families who are the social leaders of the city.

A great deal of difficulty has been experienced in dealing with a portion of each class of customers. Many of the wage earners try to let their instalments slide in order to save up money for a vacation trip, or because they are out of work, or must pay doctors' bills. Salaried workers sometimes try to live beyond their means, or an unexpected expense may wipe out any surplus for the month beyond the amount of money required for daily living expenses. The more well-to-do of its clientele are often careless or forgetful and dislike to be bothered with the payment of monthly bills. The amount of interest on charge accounts that must be carried by the store as an expense obviously is a cost of doing business which the credit manager is anxious to reduce as low as possible.

Questions

1. What are the advantages and disadvantages of a standard paragraph system of handling credit correspondence?

2. Should each class of charge customers be treated in the same manner in securing the payment of overdue accounts?

3. What steps should the credit manager of Weston Bros. take in order to insure the prompt payment of all bills by each class of its clientele?

Selling 44

N. B. Pollner & Company—Collection Method

Hamlin is a city of about 30,000 inhabitants, situated in a dairy and mixed farming district in the northern part of a middle western state. The city has about a dozen factories, employing from several thousand down to 40 or 50 employees each. The residents of the city include a large number of retired farmers and business men, as well as employees and executives of the factories.

Hamlin has four large department stores, one unusually large grocery store, four or five first-class men's furnishings stores, three good jewelry stores, and two women's specialty shops in addition to perhaps 150 or 175 other retail establishments of varying size.

In Hamlin, several years ago, there was organized a commercial club which had practically the same aims and functions as the ordinary chamber of commerce. This commercial club was organized and promoted by the leading merchants and several of the factory owners, and it received good cooperation from the city council and from the population in general.

During the business depression of 1920 and 1921, it became common for the charge customers of practically all stores in Hamlin to allow their accounts to become overdue. There seemed to be no way in which the individual stores could secure payment without seriously endangering their good will. The commercial club finally decided to take the matter up and

attempt to find a solution. A committee appointed by the club to work on the problem recommended that an exchange be established and that all cases of overdue accounts be reported to this exchange. The exchange was to consolidate the overdue balances owed by any one purchaser to the different stores; then a representative of the exchange was to call upon the purchaser and secure from him a note for the entire amount, including in the note stipulations stating how the amount should be paid off. This note would then be endorsed by the store or stores to whom the customer owed money, and then discounted at the bank. Usually the note would be discounted at the bank where the customer had an account, if he had any bank account, or at the bank nearest the customer's residence.

By this method the store got its money immediately and any legal or other action necessary in connection with the collection of the amount would have to be taken by the bank; thus the store's good will was protected. In case the customer did not pay the note, and the bank called upon the store to make good as endorsed, the store would be no worse off than if it had allowed the account to remain in the customer's name, an open account. The chief argument for the scheme was the popular psychology that a person would pay a bank more readily than he would pay a store.

In addition the committee recommended that each store selling merchandise on the instalment plan secure from the purchaser at the time of purchase a note for the amount, and that this note be discounted at a bank as has been described above.

N. B. Pollner & Company has one of the four department stores in Hamlin. The store occupies a two-story building conveniently located with respect to the railroad stations and the interurban lines, and only a block and a half from two of the main automobile roads. The store carries women's wear, dry goods and domestics, notions, men's furnishings, stationery, toys, women's and children's shoes, children's clothing, and draperies. It does a considerable business with the farming population living within a radius of 15 miles of Hamlin and with the retired farmers living in Hamlin. The charge business of the store with farmers is usually on a 30-day basis because of the fact that the farmers' ready money through the year comes

from the monthly checks issued in payment for milk and dairy products.

Questions

1. Should the Pollner store support a movement to put into effect the report of the commercial club's committee?
2. Should it use the method suggested in arranging for payment for merchandise sold on the instalment plan?

Selling 45

McGrew Company—Credit Bureau

Recently a group of the retail merchants in a city of 180,000 formed a credit bureau. It was agreed that the ownership and control of the operations of their bureau should not pass out of the hands of the merchants themselves. A board of directors was elected to superintend the work of the manager.

Each retailer, upon joining the credit bureau, paid an entrance fee of $25 and placed his complete ledger experience at the disposal of the bureau. The ledger experience of the charter members was duly compiled and recorded on cards. Then the manager found that he was ready to furnish three kinds of reports: (1) telephone reports in case of inquiries for immediate information; (2) written reports on the basis of the cards; (3) reports based on a special investigation of each case. It was decided that the costs of this service should be met by a regular fixed charge for each kind of report.

The original membership was satisfactory so far as the effectiveness of cooperation was concerned, but the credit bureau found it difficult to enroll new members. Agents were employed to canvass the retail trade of the city and explain the advantages of the credit bureau.

One of these agents visited the McGrew Company, a grocery store with annual sales of about $75,000, where he was met with

the argument that joining a credit bureau was a dangerous experiment for a small retailer able to compete successfully with larger stores only because of the more intimate connections between him and his customers. The agent argued as follows: The credit bureau was just the thing for a small store because the latter has no credit man, and usually neither the proprietor nor his assistant is able to devote much time to credit problems. A credit loss for a small store, moreover, is much more severe than for a big one. A single bad debt of $50 may be serious, since a small store's success depends upon operation at costs lower than those of its larger competitors. The big store has the buying power, but it also has the overhead. The small store, therefore, should strive to keep operating expenses down. With this in view every effort should be made to forestall losses from bad debts. A small store, furthermore, has fewer chances of getting credit information from the large store, assuming that neither belongs to the credit bureau, than is the case when a large store wants information from a store of equal size. By joining the credit bureau, moreover, a small store can confine its inquiries regarding customers' ratings to one source.

Mr. McGrew's answer to these arguments was that he dealt with a substantial class of trade in a prosperous residential suburb. Though over 50% of his business was on a credit basis, he was satisfied that credit losses in the past had been no greater than normal.

Question

Should Mr. McGrew have joined the credit bureau?

SELL'NG 46

ROGER SCOTT AND COMPANY—CHARGING INTEREST ON ACCOUNTS

Roger Scott and Company operate a large and well-established department store. It is a sound and conservative institution deriving a large part of its business from old customers who have had charge accounts with the concern for years.

The credit manager is in doubt how to handle the case of a Mr. Smith, a commission merchant, who opened an account in 1918. Mr. Smith's bills averaged $75 to $100 a month, which he paid promptly up to the spring of 1920, when he ceased buying. At that time he owed Roger Scott and Company $320.

After a few letters were written to him by the credit department, Mr. Smith appeared in person, explaining that as a result of severe depression in his business he was able to make only a bare living. The debt of $320 he had incurred in perfectly good faith, expecting to be able to settle. Now he was unable to do so. The credit manager agreed to give Mr. Smith time.

On April 1, 1921, Mr. Smith paid $100 on account and promised to send the remainder within six months. This brought up the question of charging Mr. Smith interest, as is sometimes done by Roger Scott and Company in similar cases.

Question

Should the credit manager charge Mr. Smith interest at current rates? What should be the policy of the credit department towards this question of interest?

Selling 47

Hazen and Jerome—Requiring Deposits on C. O. D. Purchases

The Hazen and Jerome department store does a large cash business in a large city. It has always had a considerable volume of C. O. D. sales. In recent years this has been the source of a good deal of annoyance and no little expense. The percentage of C. O. D. packages which have been refused has been growing. Not infrequently the company's drivers have found that the wrong address has been given or that there is no such address as that given. Of course, most of the C. O. D. returns are due to the customers' absences from home when the packages are delivered. Some of the members of the firm who have investigated the matter assert that customers sometimes lack courage to tell the salesperson that they do not wish to purchase and consequently ask to have the purchases sent C. O. D. Then, they fail to be at home when the goods arrive. In other cases, apparently, customers have purchased more expensive articles than they intended to when they came into the store, and on later reflection decide that they cannot afford them. Most of the competitors of the Hazen and Jerome store do a fairly large volume of credit business, and their problems have been with returned goods rather than C. O. D.'s.

During the war years the department stores in Pittsburgh put through an agreement to require a 25% deposit on all C. O. D. purchases. This was to make sure that the customers were acting in good faith. The Pittsburgh stores reported that this agreement had eliminated many of their difficulties with C. O. D. purchases. Stores in other cities did not think it likely that the Pittsburgh stores would find it possible to continue this plan after November, 1918, but the Pittsburgh stores were still adhering to this plan in the spring of 1921.

Questions

1. Should the Hazen and Jerome Company have endeavored to enlist the cooperation of other local stores in bringing about an agreement to require a deposit on C. O. D. purchases?

2. In case it was not possible to reach an agreement, should the Hazen and Jerome Company alone have tried to enforce a deposit plan similar to that of the Pittsburgh stores?

D. RETURNS AND ALLOWANCES

Selling 48

Sherry's—Policy Regarding Credits and Returns

The Devlin Store, which has a yearly sales volume of approximately $25,000,000, and the Walton Miles Company, which has an annual business of about $15,000,000, are the leading department stores in a middle western city which is the center of a trading population of about 1,500,000, including several neighboring manufacturing cities. These two stores divide the best trade of the city.

The Devlin Store has for years maintained a policy regarding credits and returns so liberal as to cause considerable comment among other department store executives. A common verdict of customers of the store is: "They are wonderful people to deal with. They will do anything for you." When a person wishes to open a charge account with the Devlin Store, he is merely asked by a clerk in the credit office to furnish the name of his bank and some store with which he carries an account. If the applicant for credit has no charge account or no banking account in the city, he is asked to furnish the name of his employer or some other reference. The credit office then looks up the references and notifies the applicant. Though charge-account customers are given identification coins, they have no trouble in making purchases and carrying them out of the store without presentation of the coin. The only check prescribed for such cases is the O. K. of the floor superintendent on the sales slip. The floor superintendent sizes up the purchaser and passes judgment without having the credit office called on the telephone. It is even possible for a man to buy an overcoat without showing his identification coin, provided that the floor superintendent is favorably impressed with his appearance.

This same liberal policy, which frequently has been characterized as "free and easy" by critics of the store's management, applies to returns and allowances. Men who have purchased suits at the Devlin Store, the trousers of which have worn out in a month, have had no trouble in getting another pair free of charge, or if no other pair could be furnished, in receiving full allowance for the value of the trousers. Goods may be returned

at will. Articles like piece goods, linen, and cotton or wool underwear, have often been returned by the purchaser and accepted by the store months after the date of purchase. In case such goods are slightly damaged, the customer is always given the benefit of the doubt.

The policy of the Walton Miles Company is almost at the other extreme. Applicants for charge accounts are asked a long string of questions in the credit office, many of which are asked again two or three days later when the representative of a collection agency calls. This double cross-examination has aroused resentment on the part of some of the individuals who have opened accounts with the Walton Miles Company. Customers find it unpleasant to make cash-and-carry purchases if they have left their identification coin at home. The salesperson always calls the credit office on the telephone, while the customer is waiting to undergo scrutiny by the floor superintendent. The Walton Miles Company refuses to allow credit for articles that have been kept in the home of the purchaser over 10 days, unless there are exceptionally good reasons for delay. Even merchandise that does not deteriorate by being kept an indefinite length of time is governed by the 10-day rule. Old charge-account customers are not given preference.

Both the Devlin Store and the Walton Miles Company charge for all alterations in women's clothes, but furnish free alterations in the men's departments. The former company, though not neglecting style appeal, has bent its energies on becoming known in the community as a family store. It maintains far more than twice as many departments as any other department store in town. The latter specializes on stylish merchandise. The Devlin Store credit business amounts to 35% of total sales; the Walton Miles', 28%. The percentage of returned goods is 15% for the Devlin Store and 10% for the Walton Miles Company. The Devlin Store occupies a spacious and attractively laid-out building that was erected 20 years ago. The Walton Miles Company's store was built 8 years ago. For its size, it is commonly considered one of the most attractive and impressive of modern department store buildings in the Middle West. Both stores are situated in the heart of the best retail district.

Nearby is Sherry's, which five years ago was located in one of the nearby side streets, but now possesses the third best location

in the city. Formerly Sherry's did not have a good reputation among the best class of trade because it made a specialty of bargain sales and job lots. The store changed hands, however, 10 years ago, and since that time it has raised its standards substantially. It now carries reliable merchandise that is only a trifle lower in quality and price than that carried by the Devlin Store or by Walton Miles. The building itself is only a shade less pretentious. For the present, the management is planning to continue carrying its sales appeal to a class of customers who are looking for merchandise just one notch lower in the price scale than that carried by the two leading stores, but who want full value and first-class service.

Recently the executives of Sherry's have been scrutinizing the cost of their services, particularly credits and returned goods. They feel that these costs could be cut down. Their policy has been more liberal than that of the Walton Miles Company, but less liberal than that of the Devlin Store. The executives have been able to find out that the losses from bad debts sustained by the Walton Miles Company are remarkably small. About the bad-debt losses of the Devlin Store they know nothing except that among most department store merchants these are presumed to be large.

Sherry's is now doing a business that is approximately $11,000,000 a year, as compared with a little more than $5,000,000 ten years ago. This is at least $2,000,000 or $3,000,000 more than that of any other competitor except the two leading stores. Its credit business is 25% of total sales. Returned goods are around 13%. The executives of Sherry's feel that their store is doing as much or more in the way of extending liberal credit and first-class service than any of the lesser competitors.

During the last 10 years Sherry's business has been the most rapidly growing of any in the city. A large percentage of this new trade is made up, the management believes, of people who have found that they can get what they want for less than is charged by the Devlin Store or the Walton Miles Company. It is believed that there is still room for expansion in this direction.

Question

Should Sherry's adopt a liberal service policy regardless of costs, or economize?

Selling 49

Kunhart-Warren Co.—Returned Goods

The Kunhart-Warren Company is a firm which operates a department store, doing an annual business of $6,237,000. This store carries a grade of merchandise intended to make a quality appeal. The coat, suit, and women's dress departments particularly make every effort to cater to high-class trade.

The managers of this store are aware of the fact that the returned-goods privilege is considered a necessary evil by most department stores, but they are trying to find some means of combating this difficulty, which has grown to be a serious problem in their store.

The owner of a large department store in New York has been reported as saying that he has to operate his store one day a week merely to sell returned goods. That is, the percentage of returned goods in all departments of his store is so large that merely by withdrawing that privilege he could close up his store one day a week and still have the same volume of sales, pay the same salaries, and make just as much money. Buyers for many women's wear departments in department stores and specialty shops have found that it is by no means uncommon for irresponsible persons to buy expensive dresses to wear to parties or have their photographs taken in without the slightest intention of really keeping the garments.

The Kunhart-Warren Company has had as high as 35.1% returned goods in its women's waist department, and returned goods for the whole store amount to 12% of the total sales. About 20% of C. O. D.'s are returned, 18% of charge purchases, and only 7% of goods purchased for cash. These figures include exchanges and the returns of goods sent on approval, as well as straight returns. The controller, Mr. J. H. Warren, Jr., is now considering whether or not it would pay to collect statistics separately on straight returned goods and exchanges and the returns of the goods sent on approval.

Certain stores have adopted the policy of fastening a large tag on dresses and women's suits in such a way that it cannot be removed without injuring the tag. No goods are accepted for return unless this tag is intact. The Kunhart-Warren Company, however, has found that women often object to this large

tag, as it detracts from the appearance of the gown or suit when they try it on. Furthermore, several stores in this shopping district have built up a large following of customers partly because of their willingness to accept returned goods under almost all conditions.

As salespeople are paid a bonus based on their total sales, it is important that a record be kept to show the number of returns for each saleswoman, in order that this figure may be subtracted from the total sales of each employee. These data are secured by requiring the salesperson to write her number on the back of the ticket on all goods sent out of the store. In case no number has been put on the ticket, through some error on the part of the salesgirl, or in case the goods are returned without the ticket, the return is called unclassified. Unclassified returns in each department are apportioned equally to all employees in that department.

The Retail Trade Board has suggested that, as all stores are affected by the returned-goods evil, they should join together in enforcing a ruling that no merchandise may be returned later than three days after its purchase. Such a policy would reduce the loss from having unsold merchandise kept out of the store for so long a period. This organization also advises all store controllers to supervise all returns as closely as possible in order to prevent the abuse of the return privilege.

Questions

1. Should the Kunhart-Warren Company include as returned goods merchandise sent out of the store on approval, or brought back for exchange?

   (*a*) If not, how should these data be handled?

2. What methods can be used to reduce the amount of merchandise sent on approval?

3. Should this store join with the members of the Retail Trade Board in establishing a time limit on the acceptance of returned goods?

4. What other methods should be adopted by the controller in dealing with the returned-goods problem?

Selling 50

Harboard Department Store—Returns

Because of the policy of competitors, the Harboard Department Store has not been able to take effective steps to reduce the amount of merchandise returned by customers. In some other cities, stores have agreed to enforce a 7-day rule and will accept no merchandise returned one week after purchase except under special conditions. The Harboard store has had a general rule that articles of wearing apparel must be returned within 10 days and that other merchandise must be brought back within one month after purchase if it is to be accepted. Because of the attitude of the other stores in the same city, however, it has been impracticable to enforce this rule, with the result that at all times fully one-sixth of all the merchandise carried by the store is in the hands of customers. As a result more money is required to carry on the business, and the operating costs are increased, because of the extra delivery, re-marking, and other services required, in addition to loss due to obsolescence of merchandise.

In a large city in the Middle West, the board of health, without the consent or support of the department stores, recently issued the following order:

> Department stores will decline to receive for return or exchange druggist sundries, such as rubber goods, brushes, combs, cosmetics, soaps, and hair goods; sanitary couches and bedding; toys, dolls, and baby carriages; men's, women's, children's, and infants' hosiery or underwear; night gowns, and pajamas; women's neckwear and veilings.
>
> Exceptions to the above mentioned lines of apparel will be made only when the merchandise shows defects or the wrong size or color has been selected, in which case such goods, if in a salable and thoroughly sanitary condition, may be accepted for return or exchange when returned within a reasonable length of time.

This order was published in all the newspapers and posted conspicuously in all the stores in the city. Although the second paragraph left a loophole which enabled customers and merchants to evade the real purpose of the order, nevertheless, the public was duly impressed with the necessity for such a ruling and in some stores returns were reduced by about 20 per cent.

It has been proposed that since competitors refused to cooperate in reducing the abuse of the returned-goods privilege, the Har-

board store should appeal to the board of health to issue an order of the type mentioned above. In addition to securing such an order, it has been suggested that steps should be taken to educate customers to the dangers arising from the abuse of such a system. Under this plan the widest publicity would be given to the new order, and customers would be told that only by the strict enforcing of such a rule could they be assured of securing new merchandise in a sanitary condition. The objection that has been raised to such a step is that the Harboard store would antagonize the rest of the merchants in the city who have built up a reputation for always accepting returned goods and who have conducted their businesses under the motto: "The customer is always right." Furthermore, it has been suggested that although many customers might appreciate the desirability of a store's refusing to accept returns of this class of merchandise, they might consider that their own cases were different and become disgruntled if their requests to be allowed to return goods were refused. Also, since some stores might enforce this rule more rigidly than others, the Harboard store might be at a disadvantage in competing with the other stores.

Question

What steps should be taken by the managers of the Harboard Department Store to reduce the amount of returned goods?

Selling 51

Slocum Department Store—Complaints and Adjustments

The Slocum Department Store has a reputation for the fair treatment accorded its customers. Its managers have adopted a liberal policy in dealing with customers because they realize that the store's clientele must be satisfied if the volume of sales is to be increased. Consequently, they have adopted such a generous attitude in settling complaints and adjustments that

many abuses of this system have occurred. They are now attempting to change their old policy with a view to eliminating at least a part of these evils. The following instances are more or less typical of 80% of the adjustment cases that arise:

The buyer for the glove department purchased a large lot of women's gloves from a well-known manufacturer who guaranteed these gloves against ripping. This lot of merchandise was bought at a low figure and offered to the public during a sale at one-half the usual price for such articles. When the customers bought these gloves they were told of the manufacturer's agreement to replace all gloves which ripped along the finger, thumb, or side seams. After this lot of merchandise had been sold it was found that the gloves showed signs of wear much more quickly than usual and that they split easily. Within a week after the sale several customers complained of the poor quality of the gloves and demanded new merchandise in their place or the return of their money.

A man returned a suit of clothes which had faded perceptibly along the collar and front. When asked the price he had paid for it and how long he had worn this suit the customer stated that it had cost $42 and that he had worn it only about a month. The buyer turned a coat pocket wrong side out and found the cloth label with the price and season symbol. After consulting his books, he decided that this particular suit must have been sold at least four years ago. Upon examination he found that the waist band of the trousers, the armholes of the vest and the linings of the sleeves were not discolored and gave evidence of but little wear. Without doubt the man had purchased the suit four years ago but had worn it only for "best" on holidays and special occasions, and probably had not worn the suit over a month as he had stated.

A woman purchased a georgette waist and two weeks later brought it back to the store demanding that her money be returned. The waist had a hole in the sleeve where acid or a strong cleaning solution had evidently been used to remove a stain. The credit manager was courteous, but he declined to make any adjustment and stated to the buyer that in the future it would be his policy to refuse to do anything in such cases, since he did not care to buy this woman's business by making adjustments which were uncalled for. Four months later, in

going over the dead accounts the advertising manager found that this woman had not been making any purchases. In answer to his letter asking her why she had not been trading with the Slocum store this woman said that she would be perfectly willing to trade with the store if a satisfactory adjustment could be made on the georgette waist, which she again sent back to the store. The credit manager found that the waist had been worn considerably since it had been brought back the first time four months before and that the woman had probably received the full amount of wear and service that the article could normally be expected to give.

An automobile tire guaranteed for 5,000 miles was purchased by a young woman who owned and drove her own car. Ten days later she returned the tire and demanded a new one in its place on the ground that it had worn out before it had gone 300 miles. It was evident that this tire had been run on a wheel which was out of alignment. When questioned, the woman admitted this fact quite frankly. Nevertheless, when the credit manager said he was afraid he could do nothing for her, she demanded a new tire and said that unless she received an adjustment, she would never trade with the Slocum store again and would take good pains to see that her friends were told of the poor treatment she had received.

Questions

1. How should each of these cases have been handled?
2. In the future, what should be the complaint and adjustment policy of the Slocum Department Store?

See Organization Problems 30 and 31 on pages 289 through 298 for further references on complaint and adjustment problems.

E. DELIVERY

Selling 52

Arlo James & Son—Delivery Problems

The grocery store of Arlo James & Son is located near the edge of a district occupied by residences of skilled wage earners. Beyond this district is one of the best residential portions of Denver. Near the store are the homes of the wage earners; somewhat farther away are the residences of the more well-to-do people. The business of the James Store is about one-half cash-take business with the wage-earning people and the other half a cash-send and charge-send business with the others mentioned.

Within Denver the store has four delivery routes, and on each one it makes deliveries twice daily. In case there is sufficient business a third trip is made. In addition, trips are made after 9 o'clock on Friday and Saturday evenings, to take care of purchases made by customers earlier in the evening. In outlying districts deliveries are made two or three times a week; on these delivery trips the drivers solicit orders to be delivered on the following trip. Within Denver no soliciting is done.

Practically all orders are put up for delivery in baskets, and the truck bodies are specially constructed to carry a large number of baskets. When loading his truck the driver is assisted by the delivery room clerk, who makes up the adding machine strips of the orders taken and places the original sales slip on the filing board. The adding machine strip shows the total amount of merchandise for which the driver is responsible on that trip.

The driver, however, is not required to sign receipts for this merchandise or for the individual orders, whether they be cash, charge, or C. O. D. On each trip he does take a blank C. O. D. driver's report and on this he enters the name of the customer and the amount received from each customer making a C. O. D. payment to him. The bookkeeper, when he receives this report, can check it against the original sales slips of the C. O. D. orders taken by the driver and can thus determine when any irregularities occur.

Questions

1. Should any changes in system be made in the delivery department of the James Store with a view to securing increased control over drivers and merchandise being delivered?
2. Should the store make any changes in its delivery service to customers either to give better service to customers or in the hope of avoiding unnecessary deliveries?
3. If any changes of this type should be made, what investigation should precede the changes?

Selling 53

The Appleton Brothers Company—Organization and Procedure in Delivery Department

The Appleton Brothers Company operates one of the largest department stores in a middle western city. The store's sales for the past five years have averaged slightly over $20,000,000 a year, and show an annual increase of from $1,000,000 to $1,500,000. Since the store was established, it has maintained the policy of delivering goods free of charge anywhere within the Chicago city limits, and in recent years it has included within the free-delivery limits the smaller suburbs within a radius of from 15 to 20 miles from the retail district. To expedite the delivery service, packages are taken in large vans from the store downtown to six city delivery stations and four suburban delivery stations. From these stations the delivery routes are made out, and the drivers make their trips.

In wrapping goods, it has been the aim of the store to wrap as many packages as possible at the counter of the inspector in the department where the goods are sold. The store has opposed the idea of a central wrapping room because it believes that the central wrapping room slows up the work of wrapping considerably. This slowing up is due to the fact that sales-

people or bundle collectors move the packages to the wrapping room at their convenience, and at busy times this results in congestion. Furthermore, promptness in wrapping greatly reduces errors. It also eliminates night work for the delivery force, for packages can be moved in what approximates a steady flow if they are not allowed to pile up in a central wrapping room. When packages have been wrapped at the inspector's desk they are taken by boys to four spiral chutes located in the four corners of the central portion of the store. The packages pass down these chutes by gravity to the basement. Here they fall upon a wide conveyor belt and pass before sorters, who eliminate charges not authorized, mail orders, and transfers. All other sales, that is, cash C. O. D., and charge sales which have been authorized, remain on the belt and pass to girls who enter on each package the number of the route by which that package is to be delivered. The packages which were eliminated by the sorters and which were thrown upon another belt pass before persons who enter upon them the initial of the surname of the person to whom the goods are to be charged and the number of delivery route. This initial is to speed up the work of the authorizer. The packages, after having been initialed, and entered with the delivery route number, pass before sorters who throw them into bins, one bin being marked with each letter of the alphabet. There is an authorizer in charge of authorizing the sales for each letter. She takes the packages from the bin, removes the sales slip which has been pinned around the string of the parcel, looks up the rating of the account, and either authorizes or refuses to authorize the charge. If she refuses authorization, the matter is referred to an adjuster in the delivery department. If she authorizes the sale, she stamps the sales slip, retaining one of the slips on her spindle, and throws the bundle onto the belt. These charges which have been authorized are placed with the cash packages, the C. O. D. packages, and the charge packages which had been authorized in the department, and pass to sorters who sort them by delivery routes. The mail-order and transfer packages go to their respective departments, where the slips are authorized or the various bundles in each order collected.

The sorters remove the packages, which are now ready for delivery, from the belt and place them in bins by delivery-route

number. The packages are taken from these bins by an entry clerk, who enters on each package a serial number corresponding to the number of the line of a form on which he has entered the sales-book number, the sales-check number, the selling-department number, and the name and address of the person to whom delivery is to be made. After receiving a serial number, all packages are placed in trunks, one for each delivery route, and these trunks are taken in the large vans to the delivery substation. This list accompanies the trunk to the substation and there is given to the substation manager. The driver, upon opening his trunk, checks over the packages and presents his account to the substation manager, who checks it against the list furnished from the store, thus securing a blind check.

A duplicate of the address label is pinned around the string of all packages by the inspector. This duplicate of the address label remains upon the package until it reaches the clerk who enters the package on the sheet mentioned and places more in the trunks. This clerk removes the duplicate address label, enters upon it the serial number which he assigned to the package, and places the address label on his spindle. Some departments are now making their sales checks in quadruplicate, and in such departments a tissue copy of the sales slip instead of merely a duplicate address label is pinned to the bundle string and is retained by the entry clerk in the delivery department. These duplicate address labels or tissue copies are retained in the delivery department as a record of the parcel. They are used by the delivery department to indicate precisely what disposition was made of the parcel in case the adjustment department asks for that information. Similar tissues are filed in the adjustment office, but those tissues, of course, do not bear the serial number or the other records made by the delivery department.

C. O. D. parcels are entered on a form slightly different from that used for cash and charge parcels as already described. The cash and charge forms provide spaces for 150 parcels on each side, or a total of 300 parcels on each form. The C. O. D. form provides spaces for only 25 parcels. It has columns for the sales-book number, the sales-check number, the department number, the name of person to whom delivered, the address of person to whom delivered, the amount payable C. O. D., the amount collected, the amount returned, if any, and the signature of the

driver receiving the parcel for delivery. Upon this sheet the entry clerk in the delivery department enters all C. O. D. parcels and places them in the trunks along with the cash and charge parcels. The C. O. D. sheet is made out in triplicate, the triplicate is held in the main delivery department, the original and duplicate go with the trunk to the manager of the delivery substation. He retains both these copies until the driver, in unpacking the trunks, presents him with a list of the C. O. D. parcels contained in the trunk. After a blind check against the driver's report, the substation manager gives the driver the duplicate for use on his trip, retaining the original at the substation office for record. On the original and the duplicate sheets, which are at the substation, are entered any C. O. D. packages known as "hang-overs" which the driver is unable to deliver on the day when they arrive in the substation. If these packages remain undelivered after three trials, they are sent back to the main station.

It has been stated that all parcels are sent down the spiral chutes from the selling floors to the sorting room in the subbasement. This is not quite correct. Some articles, as ladies' hats, lamp shades, bric-a-brac, and other packages which, though small enough to go through the chute, might be crushed by heavier articles above, are taken to the substation by messenger or in trucks by the freight elevator. Other parcels which are very large or bulky are taken down by elevator. The small packages from the jewelry department do not pass through the chutes or over the sorting belts, but go directly to the jewelry cage in the basement. There they are entered on special forms which the driver must sign, and thus assume responsibility for the merchandise. These forms provide columns for the salesbook number, the sales-check number, the number of the selling department, the name of the customer to whom delivery is to be made, the address, and a blank column in which the customer must sign when she receives the merchandise. The signature in this last column releases the driver from his responsibility. Jewelry, cut glass, and similar costly merchandise is sent out in special packages designed to protect the merchandise and to give it a distinctive appearance.

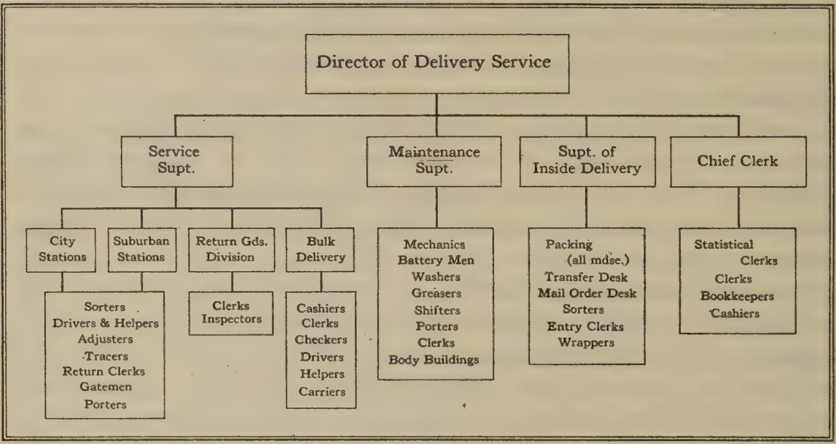
An exception to the rule that all merchandise is wrapped at the inspector's desk is made in the case of china and glassware.

Practically all sales of china and glassware are made from samples on the selling floor. The sales slip bearing the style number and the quantity of the merchandise is sent through the store system in the normal way, and from this sales slip the order is filled in the crockery stockroom in the subbasement. When the order is filled, the merchandise is placed directly in fibre delivery containers. Instead of using excelsior or straw or waste paper for packing dishes and glassware, the store purchases flannel scraps and wraps the merchandise in these. The fibre containers are especially designed for the merchandise they are to carry whether plates, tumblers, fruit jars, cups and saucers, or what-not. Each container bears a number, and the entry clerk in the delivery subbasement enters the number of this fibre package upon the sheet against the serial number assigned to the package. These fibre containers must be returned to the store, and when each driver unpacks his trunk at the delivery substation and prepares the packages for delivery, he must make a list of the containers received. This list is checked in the substation office against the sheet sent from the main station. The driver or his helper, upon arriving at the place where delivery is to be made, must unpack the container in person, return the flannel cloths to the container, and bring container and cloths back to the substation. There they are checked against the list which the driver prepared and he is released from responsibility for them. The store believes that this system of using fibre containers has a distinct advantage over the old method of packing in excelsior, straw or paper. It has found that its losses from breakage are practically *nil.* Also, there is no argument with the customers in regard to whether or not the goods are broken, for the driver himself unpacks the merchandise. Again, the customer's house is not littered with packing materials; the goods are packed in clean cloths and there is no dust, straw or excelsior in the room where the unpacking is done. In case a special sale is being held on glassware or crockery, the use of these containers enables the store to pack up a quantity of merchandise in advance. Orders can then be filled and delivery made with surprising rapidity.

To obviate errors in delivering the trunks to the substations, each trunk bears a tag upon which is printed the number of the substation for which it is intended. For further protection

against error the tags for each station are of a distinctive color, and the trunks bear conspicuous painted numbers of the route whose merchandise they contain. All route numbers are different, and thus the driver of the van, delivering the trunks to the substation, has three opportunities to determine the proper substation to which a trunk should be taken. The store finds that only rarely are mistakes made in delivering the trunks.

In order to carry out the delivery functions, the Appleton Brothers' store has placed a minor executive, the director of delivery service, in charge of all matters pertaining to delivery. His organization is indicated in the following form:



FORM No. 50. Appleton Brothers—Delivery Department Organization Chart

The superintendent is responsible for the delivery of merchandise after it is received in trunks from the superintendent of inside delivery. He is also responsible for the tracing and adjusting of complaints in the substations, for the delivery records in his department, for the return of merchandise not delivered, and for the care of equipment while it is in use. He has charge of the employing, transferring, and promoting of all employees in his department.

The maintenance superintendent is responsible for the maintenance, inspection and records of equipment. He makes recommendation for the purchase of supplies or for changes in type of equipment, and he corresponds to the garage superintendent in other firms.

The superintendent of inside delivery has charge of all functions, except the authorization of charges, from the time merchandise is delivered to the wrappers in the selling department until the merchandise in the trunks is delivered to the drivers of the vans.

The chief clerk, who is responsible both to the director of delivery service and to the treasurer, has charge of the bonding of employees, of payrolls, and of the records of the insurance of merchandise while in transit, and all cashiers handle C. O. D. receipts.

Questions

1. Where, in the procedure of the delivery department at Appleton's, could short cuts be made without impairing the efficiency of the service or increasing the likelihood of error?

2. Could the paper work described be simplified and still provide sufficient records?

3. Is the store justified in making quadruplicates of every sales slip in order that this fourth copy may be filed in the delivery department?

4. Draw a floor plan showing the layout of the subbasement where there are performed the operations from the time the packages are dropped upon the belt from the spiral chutes, until the time the packages are placed on the trunks, being as economical as possible of floor space.

Selling 54

Gordon-Bloom's—Delivery System for Small Department Store

Gordon-Bloom's, located in a Massachusetts city of 40,000, does an annual business of just over $1,000,000. It carries a complete line of men's, women's, and children's furnishings, inexpensive jewelry, and dry goods; but no furniture, rugs, kitchenware, china, and the like. The owners of the business, Mr. Leon Gordon and Mr. Raymond Bloom, act jointly as general managers. There are seven buyers, each with an assistant.

During the last year, on the average, 204 bundles were delivered each week. Of these, 65 were handled by a delivery man at a charge of $14 a week. The delivery man, who also handles the deliveries for several other stores of various kinds, entered into an informal agreement with Gordon-Bloom's to call for parcels daily, at 10 o'clock in the morning and 4 o'clock in the afternoon. This agreement is now operative. When the delivery man makes his calls at the store, he is also given a list of houses from which goods are to be returned. The buyer of each department keeps a record of all deliveries. Returned goods are credited to the delivery man just as a regular delivery is credited. The agreement provides that 75 bundles are to be transported each week. In rush seasons, when the actual number of deliveries exceeds the maximum, Gordon-Bloom's voluntarily pays the delivery man a proportional increase, based on $14 a week for 75 bundles.

Most of the shipments made from the store not handled by the delivery man are taken care of by two $15-a-week boys. One of these makes a trip daily to a neighboring town. His carfares amount to $1.20 a week. During the last year an average of nine parcel-post deliveries a week was made to distant points. The cost of postage for these packages averaged 10½ cents. Most of them went to places anywhere from 30 to 50 miles away.

All bundles are wrapped by salespersons. It has been difficult to educate the sales force up to the necessity of doing up bundles neatly, and with the greatest economy of paper and twine. The buyers and heads of the firm are convinced that much waste and actual loss are entailed by the present method.

Mr. Bloom feels that the poorly wrapped bundles now going out of the store create a bad impression among the customers. He feels that this bad impression is made worse because of the dirty appearance of the delivery man's truck, where, for example, a bundle containing silk waists may be sandwiched in with hardware that is being delivered for some other merchant. Mr. Gordon agrees with this, but regards any improvement as likely to involve undue expense.

Two schemes have been suggested. One is to buy a small truck and hire a uniformed driver. This is admittedly expensive, but the proposer of this scheme justifies it on the ground of advertising. He holds that the truck would be seen by every member of the community many times a year.

Another proposed scheme is to ship all outgoing bundles by parcel-post. It has been suggested that a separate shipping room be provided and put in charge of a $35-a-week shipper, assisted by a $15 boy, the shipper to have charge of all wrapping and of all the shipping records, which are at present handled by the buyer and his assistant. It has been estimated as a result of experience with parcel-post shipments to distant points that the franking charge will average 7¼ cents per bundle.

Mr. Gordon and Mr. Bloom are aware of the fact that another department store of approximately the same size in the same town tried to ship by parcel-post, but gave it up because of the delay in getting packages weighed and stamped in the post-office. This delay was sufficient to keep two boys waiting at the postal clerk's window for four or five hours a day.

Question

Which of these plans should be adopted?

Selling 55

Collins and Anderson—St. Paul Parcel-Post Delivery Plan

In order to handle the large volume of parcels coming through the mail at Christmas time in 1916, the postmaster at St. Paul, Minnesota, devised a special method of delivering these parcels. The plan involved the division of the city for parcel-post-delivery purposes into small units, with a temporary station in the center of each unit. Deliveries were made to these stations from the central post-office by motor truck, and then parcels were taken out from the temporary stations to their destinations by foot carriers. This system had the advantage of being flexible, for as the volume of business increased, it was necessary only to add more carriers. The problem of expansion was not complicated by the purchase or rental of additional motor or horse-drawn equipment. The temporary stations were placed in vacant stores, basements, flat buildings or in any other available space, as but little working area was needed. As a rule they were located near street-car lines so that foot carriers could use the cars whenever it seemed desirable. It was attempted to plan district boundaries in such a way that the point in the district farthest from the station would not be more than six or seven city blocks away. Thus each carrier was able to make approximately eight trips each day and to dispose of from 20 to 25 parcels each trip.

In delivering from the central post-office to the stations, one dispatch was made during the night and this mail sorted so as to be ready for the carriers when they reported at 7:30 in the morning. Other dispatches were made during the day at such times that all matter arriving at the central post-office by 12 o'clock noon was delivered the same afternoon.

Under this system parcels too heavy or too bulky to be delivered economically by foot were carried as before by motor trucks. These parcels, however, were so small a portion of the total that but few additional vehicles were required.

This same method was employed in St. Paul in handling the rush business at Christmas in 1917, 1918, 1919, and 1920 and with equally good results.

Just after the rush season of 1916 it had occurred to the postal authorities that the same methods might be employed through-

out the year to deliver packages from the retail stores and do away with the duplication of equipment necessitated by each store doing its own delivery. Plans for expanding the work were kept in mind and gradually developed, but no practical steps were taken until October, 1917. In this month there was instituted an investigation to determine the amount of material delivered by the various stores and the adaptability of that material for mailing through the parcel-post system. In making the investigation the post-office sent a clerk, equipped with a scale and recording materials, into the shipping rooms of six of the large stores. The clerk spent a week in each store determining, during that period, the number of packages by various weights, the rate of postage required on each package, the total cost of postage on each package, the condition of packages as they came to the shipping room; that is, whether or not they were properly packed for mailing, the number of C. O. D. parcels, the number of exchanges, the kind and amount of delivery equipment used by the store, the number of drivers and clerks employed, and the time of deliveries. The investigation covered weeks during the months of October, November, and December, 1917, and January and February, 1918. During the period covered, it was found that the stores investigated delivered 48,363 packages, and that of these 46,064 were properly packed for mailing; 755 were fairly well packed, and 1,544 would require additional special packing. Of the total parcels 23% were C. O. D.'s and 3½% were exchanges. It was found also that the stores investigated were using 61 units of single-horse equipment, three units of double-horse equipment, and 34 automobiles. In the aggregate the six stores employed 102 drivers and 32 clerks. The stores were making two deliveries daily, drivers reporting at 8:30 a. m. and 2:30 p. m. (At the time of the investigation the weight limit, for local deliveries by parcel-post, was 50 pounds and only packages within that weight figured in this investigation).

At postage rates, including the C. O. D.'s, it was found that the average cost per package to the merchants would be slightly over 9 cents. This included the fee for the return of the money-order on C. O. D. packages.

During the ensuing months the Post-Office Department went on with this plan. Various circumstances made it impossible

for the plan to be put into effect until March, 1920; at that time Mannheimer Brothers abandoned their private delivery system and turned their parcels over to the post-office. Five other stores followed in rapid succession, and by the end of the summer several similar establishments had adopted the plan. The method finally adopted by the Post-Office Department involved the use of five mediums in delivery as follows:

1. The regular city carrier, who would assist in the delivery of very small parcels, which could be carried without any delay or interference with the first-class mail.
2. The parcel-post foot carriers, who would operate from the substations established under the unit system. These carriers were to deliver parcels up to approximately six pounds in weight.
3. The motor vehicle service, which would handle all bulky and heavy parcels, including odd articles such as brooms, shovels, and cans. The motor service also was to make deliveries in the less congested sections where it would be uneconomical to establish foot-carrier stations. This service would be a continuous service like that of the foot-carrier service.
4. Mounted carriers or carriers with vehicles, who would cover the isolated districts, making one delivery a day.
5. The R. F. D. carrier making one delivery a day.

The post-office agreed to make collections as frequently as necessary from the stores that maintained a contract station in their shipping room; other stores were to bring their parcels to the post-office. Arrangements were made at first for delivering the same afternoon all parcels which reached the shipping room by 12 o'clock noon. This time was later changed to 2 p. m. All parcels brought down after 2 p. m. were to be delivered the following morning.

The first six stores which adopted the system were able to discontinue the use of 38 wagons, 62 horses, and 24 motor cars. They reported that from 90% to 95% of the drivers, caretakers, and other delivery employees were released for other work, or discharged.

Of course, substations were no longer maintained by the stores. Employees of the Post-Office Department were placed in the shipping rooms of the larger stores to assist in systematizing the handling of the mail and to teach proper methods of wrapping, packing, and rating. Much labor was saved by using pre-canceled stamps exclusively.

It was understood from the outset that all complaints, including breakage, non-delivery, misdelivery, or delayed delivery, were to come directly from the shipping rooms to the delivery section of the post-office, on a uniform blank. Corrective orders could be issued either to the retail organization or to the post-office organization rapidly and clearly and these orders passed back and forth freely from the outset. All the stores continued to use the methods previously employed for making out sales slips and handling store system. Copies of this list were retained so that it was easy to follow up packages. A simple system was devised and installed in each store for handling and recording C. O. D. parcels and checking in the remittances which came back in the form of money-orders. The C. O. D. feature at first appeared to be a great obstacle, shippers being under the impression that the money-order fee would increase the cost of delivery unduly. In practice, however, it seemed that this was not true. C. O. D. returns under the new system came in to the stores in the form of money-orders in one or more official envelops. There was no handling of loose change and no accounting necessary on the part of drivers, shipping room employees, and cashiers. Furthermore, the post-office always showed 100% returns.

The time schedule, finally worked at St. Paul, calls for collection from the stores maintaining contract stations by parcel-post cars at stated intervals. Whenever a car is full, however, it departs whether or not it is scheduled to leave at that time, and a second cleans up the balance and leaves on schedule. There is always a collection shortly after 6:00 p. m. to take the final batch of packages after the store closes. The packages which have accumulated at the central post-office are sorted by a corps of clerks during the night, and at 3:00 a. m. all parcels are dispatched to unit stations. By 6:00 a. m. each of these stations is ready for the carriers and at 7:30 the carriers begin making deliveries. As a rule, a large portion of the parcels are in the hands of the customers by 9:30. The motor trucks on the motorized district leave the central post-office at 7:30 a. m. As has been said, at 2:30 p. m. the post-office trucks make the final collections for afternoon deliveries. These parcels are handled in the same manner as other parcels, save that clerks work under greater pressure in order to get them out by 6:00 p. m.

It was found that an organization of 16 motor vehicles, each working one district, 27 foot carriers organized into three districts, 5 mounted-carrier districts with one carrier each, and 5 R. F. D. routes, with one carrier each, is able to deliver approximately 8,000 packages a day. This is the permanent organization for the average day's business.

The flexibility of the system is indicated by the fact that in 9 successive days of December, 1920, the number of packages delivered was as follows:

Date	Packages Delivered by Motor Trucks	Packages Delivered by Carrier from Unit Stations	Total
Dec. 19	4,599	3,702	8,301
20	4,111	3,438	7,549
21	6,251	8,387	14,638
22	7,527	11,211	18,738
23	9,614	15,814	25,428
24	10,152	14,601	24,753
25	6,316	10,908	17,224
26	3,110	4,770	7,880
27	3,996	4,931	8,927

It will be noted that the greater part of all packages handled are delivered by foot carriers and that as the volume increases the increase is absorbed by adding new foot carriers. The flexibility of this system is further shown by the fact that on July 19, 1920, a very stormy day, Mannheimer Brothers delivered only 185 parcels, paying $9.45 postage. The next day was an ideal business day, and the same store had 1,786 parcels on which the postage was $93.95. Had Mannheimer been operating its own delivery equipment, the charges would have probably been approximately the same on the two days. The great flexibility is secured not only by additional foot carriers as the load increases, but by subdividing units or districts and increasing the number of stations. This process is easily accomplished and involves little expense.

The parcel-post carriers are regularly assigned to a station and cover the same territory day after day; thus they become thoroughly familiar with the habits and wishes of their patrons as to the way in which they want their packages delivered. It seems from the experience at St. Paul that the carrier develops

a more intimate personal acquaintance with customers than could be developed under any other system.

No attempt is made by the post-office to correct or change an address, although the office does call the store on the telephone in some cases when it is clear that an address can be easily corrected. In the majority of cases, however, parcels are returned to the store and remailed after having been corrected there. Also all parcels which the post-office is unable to deliver for any reason are returned to the store. The post-office keeps a record of all parcels which it is unable to deliver and each week sends to the stores a recapitulation of the packages delivered, the total packages not delivered, and this total classified by the reason for non-delivery. A sample of this report follows:

Reasons for Return	Total for Week
No such number	98
Party not there	36
Will call	12
Refused because no examination allowed	1
Arrived too late	0
Overcharged	12
Should be charged	20
No reason given	124
No response	10
Address illegible	4
No funds	4
Damaged	3
Not ordered	3
Quarantined	3
Found loose in mail	2
Returned by request	2
Total	334

Total packages delivered week ending January 8 45,889

Collins and Anderson operate a department store doing an annual business varying from $11,500,000 to about $14,000,000 in another city not quite the size of St. Paul. The store's list of departments includes kitchenware, glassware, crockery, and the smaller articles of home furnishings in addition to dry goods, notions, and wearing apparel for men, women, and children. Furniture, pianos, victrolas, sewing machines, and similar large pieces are not carried. Of the total sales transactions, about 10% are delivered. This 10% numbers approxi-

mately 168,000 packages a year. Of these 168,000 packages, approximately 141,000 are delivered in the concern's own private trucks, at a cost of 11 cents per package; 5,000 delivered by the firm's own special messengers at a cost of 16 cents per package; 2,000 are delivered by mail and parcel-post at a cost of 35 cents per package; 2,500 are delivered by express at a cost of 83 cents per package; and 250 are delivered by freight at a cost of $3.70 per package. These cost figures cover outside delivery expense only; that is, expenses incurred after the parcel leaves the shipping room. Of the 168,000 parcels delivered, approximately 9,000 are C. O. D.'s.

It has been said that the store does not carry furniture, pianos, victrolas, and other bulky articles. There is, however, considerable pressure being brought to bear upon the merchandise department to permit buyers to stock these lines. The kitchenware department, for example, is increasing its volume of sales rapidly under the direction of one of the most aggressive buyers in the organization. He is very eager to stock kitchen cabinets and to create a separate department for the larger items of hardware which are in general demand. In addition the business in draperies, lamps, glassware, and other articles of home furnishings is building up for the store a reputation which can easily be transferred to furniture. The merchandise department is seriously considering, therefore, adding a furniture department.

Question

Should the firm of Collins and Anderson attempt to secure the adoption of the St. Paul delivery plan in its city?

Selling 56

The Miles Junction Stores—Cooperative Delivery

Miles Junction is a New Hampshire town in which there are 11 retail stores. Nine of these stores have come together to consider a cooperative delivery scheme.

The project involves the formation of a delivery company, the stock of which is to be owned by the participating merchants, who are to operate the system through a board of directors composed of three of their number.

A manager is to be hired who will have full responsibility for the purchases and supplies, the proper care of equipment, routing, the supervision of drivers, the careful handling of parcels, the courteous treatment of customers, C. O. D. collections, payments by merchants, and the arrangement of schedules.

Each store using the system is to have an equal amount invested and an equal vote in the meetings. If a store goes out of business, its stock in the delivery company must be sold to the company. Members will take turns serving on the board of directors. This board is to be responsible for the operation of the system. Its principal duties will be to approve the manager's action in buying and handling equipment and supplies, in hiring and discharging employees, and in directing the actual work of delivery. One of the directors will act as treasurer, handling all funds and making disbursements. Another director is to act as secretary. A cashier will be employed to keep books and handle receipts and disbursements subject to the supervision of the treasurer and the secretary. The board of directors will act as an auditing committee. It will also select three appraisers to determine the value of equipment.

All packages are to be gathered from member-stores by a single truck and taken to a central depot, where they will be unloaded and sorted according to routes. Each driver is then to take the packages destined for his particular route. Trucks will leave at the same time after the sorting and loading are finished, and return after completing deliveries. A list of the streets served by each route will be printed and furnished to each driver and to customers, together with a time schedule of deliveries.

Sales slips will be made out in triplicate, one for the customer, one for the central depot, and one for the merchant. In case

of C. O. D.'s, a special envelop will be provided to contain the slip. Upon receipt of payment from the customer, the driver will leave the slip as a receipt, put the money collected in the envelop, and return it to the central office. He will be furnished also with a memorandum pad for each merchant served, upon which to list C. O. D. collections. Collections will be counted by the bookkeeper before the envelops are sealed, and they will also be listed in a special book provided for each merchant, which goes with the envelops to the merchants by way of the drivers on the next pickup trips. Charge for the delivery service will be made by means of tickets, stickers, or tags sold to the merchants at prices determined by the costs of delivery. These will be attached to each outgoing parcel by the merchant.

Questions

1. What are the advantages of this scheme?
2. What difficulties in operation may be anticipated?
3. Should all deliveries be made by this system?
4. What measures should be taken in order to secure cooperation on the part of members and customers?

Selling 57

Brantford, New York—Cooperative Delivery for Department Stores

Brantford, New York, is a city of 138,000 population in the Mohawk Valley. The population is about one-half residential and one-half factory population. The former class is made up largely of retired business men, retired farmers, and those employed in the stores and as clerks in the offices of the city. The factory population is employed in knitting mills, in food factories, and in a number of metal-working shops which turn out various small metal novelties and machines.

In the city there are 5 large department stores, each doing a business of from $750,000 to $1,500,000 a year. Besides these there are 4 important women's specialty shops, the largest of which has 3 selling floors, and 7 men's clothing shops within 30 miles of Brantford. Besides these larger and more important stores there are perhaps 100 unit stores of consequence, dealing in groceries, jewelry, and other lines.

At present the 16 larger stores maintain delivery departments, some using horse-drawn equipment, but the majority using motor trucks. The smaller unit stores as a rule make deliveries; part of them cling to the old horse-drawn equipment and part use motor trucks.

The 5 department stores, considered together, have an annual volume of sales of somewhat over $5,000,000, and together the 5 stores deliver in round numbers 70,000 packages a year. These 70,000 packages amount to about 10% of the sales transactions. Of these 70,000 packages about 2,000 are delivered by special messengers of the firms, about 8,000 by mail and parcel-post, about 1,000 by express, and about 100 by freight; the remaining packages are delivered by trucks or wagons owned by the respective stores. It is estimated that of the combined deliveries 5.3% are C. O. D.'s.

It has been suggested that the 5 large department stores, the 4 women's specialty shops, and the 7 men's clothing shops organize a corporation which will deliver all the parcels of all the members. This corporation, to be known as the Brantford Parcels Delivery Corporation, would be owned exclusively by the participating firms, each store purchasing stock in the proportion that its sales bear to the total sales of all firms participating. On the board of directors each store would have one member, and each director would have one vote in meetings of the directors. In case a store which had purchased stock in the corporation desired to withdraw or went out of business, its stock would be sold to the corporation.

Officers of the corporation would be president, secretary, and treasurer, elected by the board of directors from among their own number, and a general manager employed by the corporation and giving his entire time to the work of active management. He would be responsible for equipment, personnel, costs, and all matters connected with the operations of the corporation.

In making deliveries, packages would be collected from stores entering the corporation by trucks owned by the corporation. These trucks would deliver the packages to a central station where they would be unloaded and sorted according to routes. From the central station the packages, after they had been sorted, would be taken by drivers of the various routes and delivered to the purchasers. The trucks making collections from member stores would operate on a regular schedule, and all drivers leaving the central station on the different routes would leave on a schedule, which would be the same for all. It is also part of the plan to publish lists of the streets and the time schedule of deliveries for each route and to furnish these to drivers, member stores, and customers.

As mapped out, the plan does not call for any change in the methods which the various stores have developed for recording their sales and for making out sales slips. Each store would be required to list the packages forwarded by it to the central station in each load, and these lists would be the only record kept at the central station for ordinary parcels. For C. O. D.'s a special form of lists would be provided with an envelop tag attached to each C. O. D. parcel to contain the sales slip and to be used by the driver for returning the cash received. Charges for the delivery service would be made on the basis of delivery zones and average weights. Each store would be furnished with a schedule showing charges for delivering its parcels in each of the established zones. These charges would be computed by the corporation on the basis of studies of the average weight and bulk of parcels shipped by the store in question.

Questions

1. What are the advantages and disadvantages of the proposed scheme from the point of view of the president of the largest department store in Brantford?

2. Should he go into the scheme as presented, or with reservations?

3. Should the services of the system be opened to the unit stores of the city?

   (*a*) If so, on what terms?

SELLING 58

THE LALOR STORE—PURCHASING DELIVERY EQUIPMENT

The Lalor Store is a fashionable specialty shop, the annual sales of which are just above the $2,000,000 mark. For the year ending January 1, 1921, 49,717 parcels were delivered by express at rates varying between 10 and 15 cents per count. Total express charges for the year were $6,360.49.

The question of abandoning express delivery and purchasing two trucks was taken up and referred to a special committee, which estimated cost as follows:

ANNUAL COST

Cost of two Chassis—60% depreciation on ($1,236.00)		$ 741.60
Repainting two bodies at $50.00 each		100.00
Depreciation on two bodies 20% of $350.00		70.00
(We estimate that bodies will last five years with annual repa nting.)		
Garage at $20.00 per month per car		480.00
Two drivers at $35.00 per week each		3,640.00
Gasoline (estimated)		480.00
Tires (estimated)		160.00
Insurance per car:		
Public Liability	$ 80.08	
Property damage	31.57	
Fire	13.60	
	$125.25x2	250.50
Fidelity Bonds at $10.00 per thousand		20.00
Uniforms, etc.		60.00
Registration, two at $10.00 each		20.00
6% interest on cost o' equipment ($1,586.00)		95.16
		$6,117.26

The above figures were furnished to the Lalor Store by a large department store that has for years handled delivery by means of trucks. The head of the shipping room estimated that a driver could deliver about 150 packages a day, or with a helper up to 300.

During the year 1920 parcel-post packages, the mailing cost of which aggregated $1,976.65, were sent out from the Lalor Store. C. O. D. collections cost $249.88. The delivery payroll was $4,661.18. Supplies amounted to $4,456.60. A total of 8,8193 packages were delivered by express and by parcel-post.

Question

What factors should be considered by the management in determining whether or not to purchase and operate two trucks for delivery?

Selling 59

Kent and Hutchins Department Stores—One Delivery a Day

During the world war the Government attempted to regulate to a certain extent the activities of department stores. Deliveries as a rule were reduced to one a day. This reduction resulted in a saving to the Kent Department Store of 30% in its delivery expense. Instead of making two trips a day over the same route with their trucks but partially filled, the drivers made longer trips with full trucks.

After the Armistice the Kent Department Store continued its policy of making only one delivery a day. Through a careful analysis the directors found that fully 60% of the purchases were made in the afternoon. This meant that with even two deliveries a day much of this merchandise could not be delivered until the following morning. Consequently, not more than 40% of the store's customers had really benefited by the old policy. Furthermore, under the old system many packages had been delivered before the customer returned home from her shopping tour, so that this merchandise had to be returned to the store and delivered on the following trip.

At present the drivers arrive at the store at 7:00 o'clock in the morning, start out on their routes with full loads at 8:00, and are free to go home as soon as they have finished their jobs, in normal times about 3:00 o'clock in the afternoon. In order to take care of emergencies, a special-delivery service is maintained which enables the customer to have her merchandise delivered immediately upon the payment of a charge of 10 cents.

Although this fee does not pay the cost of the special service, it does curtail its use by customers who have no real need for rapid service, and at the same time affords customers an opportunity to secure their goods quickly if the need is urgent. Since the Kent Department Store has no grocery or meat section, it is not faced with the problem of handling highly perishable merchandise.

The Hutchins store, the leading competitor of the Kent store, has returned to two deliveries a day because the managers are convinced that it is good business to increase their delivery service 100% at an increase of only 25% in cost. They consider that this policy also reduces congestion in the delivery room and that errors of address and other mistakes can be rectified more rapidly with two deliveries a day than would be possible under the other system. Furthermore, these men believe that it is not uneconomical to make two deliveries a day if the trucks are filled to capacity. They are convinced that this state of efficiency can be attained if the delivery routes are laid out properly and the men trained to give efficient service. Although the managers of the Hutchins Department Store admit that it is somewhat less expensive to operate but one delivery a day, they have adopted the two-delivery system because of its advertising value as well as the additional service and convenience afforded to customers.

Most of the other stores in this city have adopted the general policy of the Hutchins store. Competition is keen, and each store is attempting to build up as large a clientele as possible. Although the Kent store has apparently held its own with but one delivery a day, the Hutchins store, with its policy of two deliveries, appears to be forging ahead more rapidly, although it is doubtful whether the latter store is making as large a net profit as the Kent store.

Question

Should the Kent Department Store continue its policy of making only one delivery a day?

F. PERSONAL SERVICE

Selling 60

Hanley Department Store, McGary Department Store—Service to Customers

For a number of years the Hanley Department Store has been building up a reputation for giving the finest service to its customers of any store in the state. The managers of this store think that a department store's success, and even its right to exist, depend solely upon its ability to give service. As the president explained, "Any store can buy the same kind of merchandise as we do, but no other store has the Hanley reputation, nor can it give the Hanley service." These elaborate services are established, not only to attract customers to the store, but also to keep them in the store after they have once entered. For example, a woman may start on a shopping tour after she has finished her morning housework, an hour or an hour and a half before noon. Lunch time arrives before she has completed her purchases. If she had to leave the store for lunch, it is quite possible that she might be attracted by the merchandise in another store or that she might decide to go to the theater instead of returning to complete her shopping.

In order to cater to the type of woman who appreciates dainty dishes served in a pleasing manner, an attractively decorated and furnished restaurant is maintained. To accommodate the office worker, who has but an hour in which to get her lunch and do a bit of shopping, a cafeteria is operated, which is served by the same kitchen as the restaurant. The restaurant and cafeteria, since they serve but one meal a day, cannot hope to compete with outside restaurants and hotels and show a profit. They are run, therefore, at a loss.

Manicuring and hair-dressing parlors are maintained on the same floor as the restroom. These two services usually show a profit, as does the children's barber shop which is also located on this floor near the nursery and children's playroom. The nursery and playroom are in charge of a trained nurse who looks after the children and sees that they are amused while their mothers are shopping about the store. Children's parties are also given at intervals in order to keep these young customers

and their mothers in closer contact with the store. Free classes in art work, fancy work and dressmaking are given, and frequently the store deviates from practical instruction courses and announces lectures on Roman art, Mediaeval architecture, or oriental tapestries.

Rooms are also available for women's club meetings, for the use of which no charge is made. Once a month concerts are given by the store choral society. These usually are given during store hours in the auditorium.

Doormen are always on hand to assist customers in alighting from automobiles, and to open the doors for them. It is also the duty of these employees to greet the store's most important customers by name. Two deliveries are made each day by the store's own equipment, and a special delivery service is maintained to take care of the more urgent cases. Customers can obtain theater and railroad tickets at the traveler's bureau on the main floor, where a postal substation is also maintained.

In order to take care of the wants of customers who are themselves unable or unwilling to shop, a shopping service is maintained. Almost every advertisement of the store contains at least one paragraph alluding to this service and usually the slogan "We shop for you or with you." Not only is shopping done for customers who are away on vacations, but for those in the city who are unable or unwilling to come to the store. This latter group of customers is responsible for the large number of telephone orders filled almost daily by the shopping service.

The McGary Department Store has adopted an entirely different policy. It has built up its reputation for good merchandise at the lowest price in the city. The directors of this store are convinced that the great majority of their customers do not need these elaborate services. They hold that it is out of place for a firm which makes a specialty of merchandising to operate a large number of services which show but few tangible results, and which require large expenditures to maintain.

Up until two years ago the McGary store operated a restaurant for the use of customers, but this was discontinued because the store was short of space and because the restaurant could not show a profit operating with only one meal a day. It was thought that a higher return could be realized by utilizing the space for selling departments.

A hair-dressing and manicuring parlor has not been established for the same reason, although several stores in the city maintain that they make a substantial profit from this service. Children's parties are never held, and the nursery has been abolished because the directors found that the majority of mothers preferred to take their children with them when shopping rather than leave them in the charge of strangers. A restroom, with a maid in charge, is maintained for the use of women customers, however.

In order to take care of the demands of certain customers, shopping will be done for them by one of the salespeople. This fact is not advertised, however, and is only taken advantage of as a rule by the customers of the store who are away on a vacation or unable to make their purchases personally.

The directors assert that were they to establish the number of services furnished by the Hanley store, they would be unable to maintain their present reputation for high-grade merchandise sold at low prices, and they are frank in stating that if their customers wish to purchase service instead of merchandise, there are hotels and other establishments which will be only too glad to serve them.

Question

What factors should a store take into account in deciding what services should be furnished its customers?

Selling 61

Jas. J. Murray & Co.—Restaurant Policy

The James J. Murray & Company Store handles most of the lines of merchandise usually found in department stores. It specializes, however, in ready-to-wear clothing for men, women, and children, as well as underwear, furnishings, and similar articles of apparel. The efforts of this store to build up a reputation and a volume on clothing have been carried so far that it is

rapidly tending toward the specialty store type. In its advertising the Murray Company has consistently followed the policy of attempting to create such a state of mind among customers that when they think of purchasing clothing they will naturally think of Murray's. The store has felt that this type of advertising and this type of good-will is of much greater permanent value than the type of advertising which presents special bargains at special times. Apparently the policy has been successful, for the sales have shown a slow, steady growth over the past six years, and are now averaging $7,250,000 a year.

In 1919 the store established a restaurant on one of its upper floors. The interior decorating and furnishings were designed by a well-known firm, and the layout as a whole was considered to be the most up-to-date in the city. The restaurant consisted of two rooms, a grill room, furnished in dark oak, and a blue and white colonial room with space for dancing. By means of a separate outside entrance to the elevator it was made possible to serve dinner, as well as luncheon and tea.

The restaurant was established purely as an advertisement and was not expected to show a profit. Superior service, however, combined with good music and prices, made the restaurant popular from the outset, and the first year's receipts so nearly paid the expenses that the directors felt that it might be possible to make the restaurant show a profit. In the second year, receipts were almost equal to expenditures, and the management believed that with the experience already gained the restaurant should at least pay expenses the following year. In 1921, however, with costs of operation remaining about the same as in 1920 and with the insistent demand for lower prices, it became clear that the Murray Company must give up, for the time being, the idea of making the restaurant pay a profit and must fall back on the idea of using it primarily as an advertisement. When this situation became generally known in the store, buyers began to press the merchandise manager for advertising space on the restaurant menu cards, and began to ask that their special bargains and weekly leaders be announced on cards placed on tables in the restaurant. Previous to this time no such advertising had been done in the restaurant, and no attempt had been made to tie up the restaurant advertising in the newspapers with the general store advertising, save that the name

"Murray's" appeared in both advertisements in the same kind of type. No advertisements or signs of any kind had been used in the restaurant to make announcements regarding other departments of the store.

Question

Should the merchandise manager have yielded to the requests of the buyers?

SELLING 62

HERMAN J. WELTZIEN & COMPANY—POST-OFFICE

Soon after Herman J. Weltzien & Company established its department store in 1906, the management decided to place a post-office substation in the store in order that customers might be able to purchase stamps and money orders and mail parcels there. The United States Government requires that a postal substation in a department store be on the main floor. It also requires that this substation shall accept all matter which is mailable, and that it shall undertake all the other activities of any United States post-office.

The post-office was established and given a prominent position on the main floor of the Weltzien store. One clerk was placed in charge, and this clerk received the only compensation which the store or any of its employees obtained from the Government. The clerk's compensation from the Government was $1 a year. The rest of his salary was paid by the store.

In 1920 the business of the post-office department had grown until the sales of stamps were in the neighborhood of $500 a day, and the money orders issued amounted to between $2,000 and $3,000 a day. After the introduction of the parcel-post, upwards of 425 parcels were usually received in a day. The most unsatisfactory feature of the post-office was the fact that it was bound

to receive mail from whomever presented it. As a result, it was receiving parcel-post packages from the smaller stores nearby, and even from small manufacturing establishments, in addition to handling the business of its own customers. The store had three clerks in the post-office, and their salaries, plus the other expenses connected with the department, amounted to from \$3,500 to \$4,000 a year. In return for this outlay the store received \$1 a year from the Government, and whatever advertising value the post-office had.

During the closing months of 1920 it was decided beginning with January 1, 1921, to abolish the post-office department. The sale of stamps, post-cards, and express money orders was placed in charge of the telephone operator in the restroom on the second floor. This operator was also instructed to receive from customers parcel-post matter. This matter would be mailed through the store's shipping department.

By this new arrangement the store did away with three clerks. In 1920 it had employed one telephone operator and three clerks in the post-office department. Under the new plan one telephone operator did the work of all. In addition, the store saved the expense of maintaining the post-office department and was able to use the valuable first-floor space for selling. Finally it received a profit on its sales of express money orders.

Question

Should the store have retained its old post-office department?

Selling 63

Webb Department Store—Organization of Selling Departments—Instruction of Customers

In the Webb Department Store sales are falling off in many of the yard goods and novelty departments. Many of the silks, wools, and cotton goods were purchased because it was expected that customers who were unable to buy clothing ready made, or who could not afford to buy expensive novelties, would purchase yard goods to make up at home. It has been found, however, that the style of women's garments for the present season requires a certain knack in putting goods together that is not possessed by the average customer. Furthermore, some ability and skill is needed in making lamp shades and other novelties, for which some of these materials have been stocked.

The sales in the pattern department, as well, are affected by the falling off in the sale of yard goods. It is difficult for the average customer to make a dress having a good style; she does not buy patterns or materials, but fixes over her last year's dresses if she cannot afford to buy ready-made garments. To keep its agency, the pattern department must sell a given number of patterns each month, and in order to reach its quota for this year, it will be necessary to find some sure way to increase sales.

One of the stores in the same locality as the Webb Department Store has attempted to solve this difficulty by giving courses of instruction to its customers. The courses are free, and instructions are given in the intricate details of making a dress or waist of the latest style; also in manufacturing lamp shades and other novelties.

Before these courses are undertaken, the buyers carefully stock their departments with all the material that will be needed by the patrons of such courses, and the teacher is informed as to the grades of merchandise which it would be most desirable for her to stress in the instruction of her customers. This store has had considerable success in increasing the sales of its yard goods and in the departments handling wire frames, silks, paints, and other art goods used in the manufacture of lamp shades and like novelties.

When this plan has been considered in the Webb Store, however, the buyers of the ready-to-wear departments have objected

to the establishment of such courses on the ground that it would rob their departments of the sales which they would otherwise make. These buyers have pointed out that a higher rate of profit is made from the sale of stylish ready-to-wear garments than from the sale of yard goods. They maintain that even if this were not true, the establishment of a course in dressmaking, or a course in the making of art novelties, is simply a case of "robbing Peter to pay Paul."

Questions

1. Would it be advisable for the Webb Store to establish training courses for its customers?
2. If so, under what part of the organization of the store should the training courses be placed and how should the expense of such courses be handled in the accounts?

Selling 64

Morton & Bauer—Commercial Laboratory

A number of years ago the Morton & Bauer Department Store began sending some of its merchandise to be tested in a commercial laboratory run by J. K. Hodges & Co. This step was an indirect result of the store's policy of strict accuracy in advertising. It had occasionally occurred that a buyer, rather than admit ignorance of his goods, had taken a chance on advertising them as "all virgin wool," for instance. So in order to protect customers, and at the same time make buyers know their merchandise thoroughly, the store began sending occasional samples to be tested by the J. K. Hodges laboratories. This commercial laboratory had a high standing in the city, and it was not long before the advertising manager of Morton & Bauer saw the possibility of making capital out of the fact that the store employed J. K. Hodges & Co. to analyze its fabrics. As

time passed it became customary for Morton & Bauer to have all lots of merchandise that came into the store tested by J. K. Hodges & Co., instead of merely occasional samples.

During the years, from 1915 to 1916, J. K. Hodges & Co. developed a large amount of business with manufacturers, and in 1919, in order to be near the plant of one of their largest clients, they decided to move their establishment to a small city 40 miles away. Morton & Bauer considered this distance a serious handicap to the continuance of the store's relations with J. K. Hodges & Co. There was no other commercial laboratory in the city with as good a standing as J. K. Hodges & Co. The merchandise manager of Morton & Bauer was in favor of the store putting in a commercial laboratory of its own, since the necessary space was available.

At this time Morton & Bauer had an annual sales volume of slightly under $12,000,000. The store had always handled high-grade merchandise, with a leaning toward staple rather than style lines. The assortment was the usual one for a general department store. Charge sales amounted to 60% of total sales transactions. Quality rather than price was stressed in the store's selling appeal; comparative prices were not used in advertising or window displays.

Question

What points should the directors have considered in 1919 in deciding on the store's future policy with respect to testing merchandise?

Selling 65

Shaw, Butler & Company—Use of Shopping Bureau

In the Shaw, Butler & Company Store there has arisen some dispute as to the exact functions of the Shopping Bureau. This matter came to the attention of the store manager because a new comptroller in revising the internal accounting of the store had raised the question of whether the expenses of the Shopping Bureau should be charged to buying, selling, or management.

In the organization of this store there are two main divisions under merchandising—one selling, and the other buying. In the course of a conference to determine how the expenses of the Shopping Bureau should be charged, a number of conflicting views were brought out in regard to the functions of this bureau. The merchandise manager asserted that its main function was price comparison. He stated that, since the advertised store policy of Shaw, Butler & Company was that it would not permit itself to be undersold by any other store in the city, it was necessary for him to have the Shopping Bureau under his control so that department managers could at all times obtain data on the prices of other stores for goods similar to their lines.

The buying manager stated that that was entirely the wrong conception of the functions of the Shopping Bureau. He asserted that it should be used wholly for merchandise comparisons to enable the store to purchase distinctive lines of goods that had proved popular. The publicity director then stated that he needed the services of the Shopping Bureau to keep in touch with what other stores in the city were doing. He expressed his disagreement with the price appeal policy dictated by the store owner and said that if he could have his way he would put the advertising policy of the store all on the quality appeal basis. Under those circumstances he would be satisfied to see the Shopping Bureau under the control of the buying office, but so long as the management was determined to follow the price appeal policy he thought the one logical way to use the Shopping Bureau was to make it directly responsible to the publicity department.

Question

How should this dispute be settled?

G. SPECIAL TYPES OF SELLING

Selling 66

The Nawn Department Store—Bargain Basement

The problem of establishing a bargain basement is being considered by the Nawn Department Store, which occupies a modern three-story brick structure, having a basement space of 75 feet x 120 feet. This basement has two outside entrances from the street, and a central stairway to the first floor. Elevators are in a bank along one side of the building. The basement has been given over to reserve stock and one selling department doing an annual business of $50,000, and showing a profit of about $4,600. All the upstairs departments are in successful operation and are not crowded for room. The selling department, now located in the basement, could be accommodated elsewhere and ample space for reserve stockrooms is available in the loft above the third floor. The company has sufficient capital for expansion, and it has been decided that the establishment of a bargain basement would be the best means of securing a larger sales volume.

A number of questions, however, have arisen in the planning of this step. For instance, the whole rent of the building is $25,000 a year. What would be a fair rental for the basement? Should the basement be run in competition with the upstairs store or with other stores carrying a cheaper grade of merchandise? One store, handling cheaper goods than the Nawn store, has already been operating a basement store for some time. If this new basement store competes with the upstairs store, what will be the effect on the total sales of the firm?

Another point upon which the managers must decide is the lines of merchandise to handle. They are considering whether it would be better to carry only wearing apparel or whether this basement store should stock yard goods, novelties, toilet goods, and the other merchandise carried by the upstairs section of the business.

The main store carries a stock of approximately $1,200,000. What should be the probable stock investment required for the basement store, and what volume of sales could be reasonably expected in a city of 250,000 population?

Considering the question of mark-up, can this basement store expect to use the same percentages as the upstairs departments carrying the same line of goods, or must the basement be content with a lower rate of mark-up in the hope of securing a faster turnover? Also, in the case of mark-downs, is it advisable for the new store to follow the policy of reducing the price on merchandise as soon as it fails to sell rapidly or should the mark-down be automatic? As an illustration of the latter method, one store has the policy of cutting the price 25% on all merchandise that has been on sale for one week, 50% after two weeks, and 75% after three weeks. Goods which fail to sell after they have been on the counters four weeks are given away. In either case, would it be advisable for the basement to continue the policy of the upstairs store in giving discounts to clergymen, students, and dressmakers?

Another problem arising out of the establishment of the basement store is the question of job lots versus full lines. The latter can be laid out in advance, but job lots cannot be planned for to the same extent. On the other hand, it is possible to set a percentage for the amount of job lots and special lines that can be handled, and carry for the most part full lines of merchandise. If this latter plan is adopted, what percentage of the merchandise carried should be job lots?

There are several sources from which job lots can be purchased. Manufacturers are usually willing to dispose of samples at a large discount, and to sell overstocks at reduced prices. In the clean-up at the end of the season, there is often an opportunity to buy good merchandise, but this stuff must be gotten out of the way before the store is in position to buy goods for next season. Cancelations, returns, defective goods, and sometimes surplus lots are often sold to buyers as seconds. Jobbers and wholesalers sometimes have overstocks which they are glad to dispose of at a low figure, and job lots can occasionally be purchased from other retailers who have fire, or bankrupt stocks. The managers are considering the advisability of ruling out some of these sources as being detrimental to the store. They are also undecided whether or not to permit upstairs departments to dump surplus stocks and leftover goods in the basement. If the main store departments are allowed to dump in the basement, at what price should the goods be transferred? If the automatic

mark-down feature is in force, and the merchandise fails to sell until it has been on the counters for over two weeks, should the upstairs departments be penalized an additional amount?

The managers are also considering the question of how the buying for the basement should be handled. Should the department heads upstairs also buy for the basement, or should separate buyers be employed? If so, should these basement buyers be under the heads of the corresponding departments upstairs, as is the case in one successful store, or should they be responsible to their own merchandise manager?

The community in which the Nawn store is located is accustomed to liberal services. For this reason, and also because of competition, this store has adopted the policy, "the customer is always right," and returns are accepted even though the merchandise has been out of the store for over two weeks. To what extent can customers, in the basement store, be induced to wait on themselves, leaving the salespeople free to make out tickets and handle the cash? Would it be advisable to limit the returned-goods privilege to 48 hours? Should mail orders be filled? Should customers who have accounts with the main store be allowed to charge merchandise bought in the basement? What would be the result if customers were required to pay a 10-cent charge on all packages delivered? Should elevator service be furnished the basement, or should its customers be required to use the stairways?

In regard to publicity, should the basement store be allowed to use the display windows, or would this tend to cheapen the whole store? On the other hand, if the basement is not allowed to use window displays, will not the total sales volume of the store be reduced? The same question arises in the matter of newspaper advertising. Should the advertising for the basement be included on the same page and in the same advertisement as that of the upstairs store?

The following advertisement appeared in *Printers' Ink*, September 29, 1921, under the caption, "Underground Advertising":

> The great department stores on State Street, Chicago, segregate the merchandising and advertising of their cheapest goods, job lots, overstocks, seconds, etc.
>
> This less desirable merchandise is handled through what is almost a separate store located in the basement. It is sold chiefly through cut-price advertising in *The Chicago Daily News*.

The approximate monopoly of advertising from "bargain basements" which *The News* enjoys has given it a lead in total department store lineage. But of far greater importance as a guide to other advertisers is this one vital fact.

The Chicago Tribune leads in the advertising placed by State Street Department Stores to sell the merchandise on 10 main floors and more than 100 upper floors.

Questions

1. Would the advertising of the basement store require a newspaper appealing to a different class than that used for the advertisement of Nawn's main store?
2. In view of the foregoing question, what policy should be laid down for the conduct of Nawn's basement store?

Selling 67

Organization of Selling Department—Inter-Relation of Bargain Basement to Upstairs

The managers of the Peabody Store are dissatisfied with the present organization of their bargain basement, but they are uncertain as to what changes would be advisable in reorganizing. The basement carries smaller lines and less expensive grades of the same kinds of merchandise that are handled on the upper floors. At present, the bargain basement is operated under different management from that of the main store. Each organization has its own merchandise managers and buyers.

It is the policy of the buyers for the basement store to purchase job lots at auction, broken lines of merchandise, mill-ends, and seconds. These goods are then placed upon bargain tables at low prices. Occasionally, when the upstairs departments are overloaded with merchandise, the managers dispose of the surplus or leftovers by selling it to the buyers for the basement. Such sales are usually made at a heavy loss to the main store depart-

ments, for not only do the basement buyers refuse to purchase except at low figures, but any subsequent mark-downs required to move the goods are charged against the upstairs departments.

As a rule, however, the buyers for the main store do not sell surplus merchandise to the bargain basement, but instead mark the merchandise down themselves and feature it as leaders to draw customers to their departments. Consequently, although the upstairs departments handle high-grade merchandise, in certain instances they compete with the bargain basement by marking down goods which have failed to move at their original selling price.

The managers are considering operating both the bargain basement and the main store under the same management. Although the basement would still deal in job lots, seconds, and broken lines, it would also serve as a dumping ground for any merchandise which failed to move in the upstairs departments. By carrying only high-class goods in themain store and leaving all price reductions and cut price sales to the basement store, they consider it possible that the reputation of the main store will be enhanced.

Question

What should be the relation between the bargain basement and the main store?

Selling 68

Fiske Department Store—Bargain Booths

There has been some difficulty in the Fiske Department Store in getting the public to patronize the special sales of upstairs departments without the use of large amounts of advertising. It has been proposed, therefore, that 12 booths be arranged on the first floor to handle the special leaders of all the departments in the store. These booths are to be presided over by special salesgirls who are to be responsible to a "special" department

head in charge of all sales of this nature. The departments furnishing the merchandise for sale would have nothing to do with these sales except establishing the selling prices and receiving credit for the goods sold.

The big advantage of this policy, it is thought, would be to give upstairs departments a chance to sell goods on the main floor, and so educate the store's customers to the value of the merchandise that they are carrying. If a customer purchased toilet goods at one of these booths and was satisfied with them, it was thought that the next time she wished to buy this kind of merchandise, she would go to the toilet goods department of the Fiske store. Another advantage of this plan would be having the merchandise sold by a picked sales force. It is a part of the plan that none of the merchandise in these booths should be specially advertised, but that the store should rely on customers being attracted by seeing the merchandise on the first floor. In case the merchandise did not sell readily, it would be taken out of the booth and returned to its department, and other goods supplied.

The objections raised to this policy are briefly as follows: If only bargains and low-priced leaders are featured in these booths, the customers attracted will be bargain hunters and not customers who may eventually be expected to trade with the upstairs departments. Furthermore, if the merchandise is on the ground floor and the department furnishing the goods is on an upper floor, customers see only the special leaders of such a department and not its full line of merchandise. There is also some question as to the desirability of having the same salesgirls sell toilet goods in the morning, women's waists in the afternoon, and hats or dresses the following day.

Question

Should the managers of the Fiske Department Store establish bargain booths on the main floor?

Selling 69

Rankin Department Store—General Mail Order Problem

The Rankin Department Store in a small middle-western city has been doing some mail order business. This business had its origin in the sending in of orders by customers who were away on vacations. When other people in the outlying towns found that this firm was filling orders by mail, they began to write in for merchandise instead of making a shopping trip to the city. No special attempt was made to develop this part of the business, but a large mailing-list for direct-by-mail advertising had been maintained for several years. This mailing-list has grown by degrees until it now includes a large number of customers who buy goods only by mail. In fact a substantial part of the company's sales volume of a little less than $5,000,000 is accounted for by the mail order business.

It has been discovered, however, that this mail order department is handicapping, to some extent, the expansion of the rest of the store. For example, three girls had previously handled all mail orders in the office and had found time in addition to attend to the telephone order business, but now a flood of letters, including paid mail orders, C. O. D. mail orders, deposit account mail orders, requests for samples, inquiries about prices, requests for catalog, returns because of wrong address, checks in payment of previous purchases, as well as other correspondence, come pouring in with every mail. Similarly there is a large volume of outgoing mail, such as notifications of returns received, statements of balances due, notifications that merchandise is being shipped short, statements that new merchandise has been ordered and will be in stock at a certain date, notifications that merchandise is being held for payment of balance, statements that goods nearest samples are being shipped, and the like. Also there is considerable confusion in the store itself. No separate stocks for the mail order department are carried, with the result that employees are continually taking merchandise off the shelves to fill the orders sent in by mail. Often, experienced salespeople waste time filling small mail orders when they should be waiting on customers. Moreover, advertising is not as effective as it should be, since the copywriters must keep in mind the stores, mail order clientele as well as its regular customers.

The directors are loath to give up the mail order department, however, since in recent years the large mail order houses have been making serious inroads into the business of the Rankin Department Store, especially in the ready-to-wear lines. Frequently there is open antagonism between the town and country inhabitants, and under these conditions it is not surprising that a proposal to do business with a distant mail order house meets with success.

Moreover, both reading matter and general advertising in the periodicals have created new wants in the minds of many people. The large mail order houses have not been slow in taking advantage of this desire by sending out their catalogs, emphasizing the fact that these wants can be easily filled by mail. Consequently, the managers of the Rankin store are convinced that there would be at least a temporary loss in sales volume if the mail order department should be given up.

These men realize, however, that if a regular mail order catalog were issued, their company would be at a serious disadvantage during a period of rapidly fluctuating prices. For example, when prices are rising, such a firm might find itself obliged to sell merchandise at prices quoted in a six-months-old catalog. In other words a mail order house finds difficulty in taking full advantage of rising replacement values. On the other hand, in a falling market this same firm may lose many sales because of its inability to get price reductions to the attention of its customers rapidly enough.

The directors are considering, therefore, whether the mail order business should be continued or thrown out altogether. They have found that several stores in their locality have taken this latter step, but the Rankin Company is in need of an increased sales volume, and its mail order business has been one of the best means of securing this result in the past. If the mail order business is continued, however, the directors are convinced that the present methods cannot be continued, but that definite steps must be taken to build up this department.

Questions

1. Would it be advisable for the Rankin Department Store to continue its mail order business?
2. If so, how should the mail order department be organized?

3. What should be its relation to the other departments in the store?
4. Should separate stocks be maintained?
5. What should be its policy on guarantees?
6. How should its advertising be conducted?
7. What types of merchandise should it handle?
8. To what extent should its buying policy differ from the buying policy for the rest of the business?

Selling 70

Perkins & Hastings—Department Store Mail Order Policy

The Perkins & Hastings store, situated in a large southern city, was established as a small retail store in 1876, specializing at that time in men's wear. Later it grew to become a general department store. The town in which it was founded was a mining town where men and women came to trade from relatively distant places. It was practically their suggestion that the business became what at that time was called a "country order department," which later became known as a "mail order department." In the beginning, and for some years thereafter, even though small catalogs were issued, the filling of orders was done out of current retail stock.

Beginning in 1909, Perkins & Hastings began to carry separate stocks in an adjoining building for the mail order business. The separation was brought about because it appeared that separate stocks could be kept up easier, and that filling mail orders out of the city retail stock caused inconvenience to retail customers. In the summer of 1919, the line of separation was made sharper by employing an entirely different staff of buyers for the mail order department. All that was left in common between the two businesses was the overhead offices and the general administration.

In the same year the catalog, which had previously been distributed from the store, was distributed from the New York buying office. The character of the catalog underwent a radical change. From something closely resembling the catalogs of some of the large mail order houses, it was modified by the addition of 187 pages of New York styles. Emphasis was laid on the fact that all goods offered were products of the metropolis. An attempt was made to impress upon customers that Perkins & Hastings were giving them New York fashions, service, and prices right at the source. In this connection, the catalog featured, together with illustrated models, pictured scenes from New York, tieing up the well-known buildings and thoroughfares with New York styles. For instance, on a page where dresses were shown, the Woolworth Building was pictured. On another page, "Fifth Avenue" styles were depicted, the copy saying that the creation was inspired by the "Avenue."

With regard to prices the following editorial appeared:

In accordance with our custom, we do not make comparisons of prices. You will never find such misleading statements in our catalog as "worth $7.50, our price $6," or "big $10 value for $7.98." We simply quote the price of the article.

The spring and summer catalog of 1921 contained the following statement in an editorial:

Ours is the last of this season's mail order catalogs to come off the press. We purposely held it up until the last possible minute to make sure that we could give the benefit of the latest and lower market prices. It is not necessary, therefore, for us to paste in this catalog a sheet with further price reductions, or make any price reductions, because every price in this book is based on the rock bottom market cost that prevailed after other catalogs were being printed.

Then followed a passage like that previously quoted from the 1920 catalog, calling the reader's attention to the fact that the Perkins & Hastings Company did not make comparisons of price.

Prior to January 1, 1920, the accounting system was not sufficiently segregated to give the executives any idea as to whether the mail order department yielded a profit or a loss. Previously they had been obliged to estimate. On that date a careful segregation of accounts was installed.

The results for 1920, as shown by the new accounting system, were not satisfactory. At the end of the year the question of discontinuance of mail order publications was brought up. Realizing, however, the abnormal conditions prevailing during 1920, the executives decided to defer action and observe the progress of events from month to month. The monthly statistics for the first five months of 1921 showed an unprofitable mail order business.

Few trades suffered more acutely from the business depression that set in throughout the country in the spring of 1920, than the mail order business. Over 1920 the two largest houses had shown a decline in sales of approximately 37%. For the same period the decline in sales of the mail order department of Perkins & Hastings was 21%. In July, 1921, there seemed little hope for restoration of the mail order business for months to come.

During the same period of depression the department stores were among those who suffered least. In 1920 the sales of the Perkins & Hastings store, exclusive of mail order trade, were $13,429,718 as compared with $12,702,611 for the previous year. The number of pieces sold in 1920 were below the 1919 record. During the first five months of 1921 sales in the store were slightly in advance of sales for the corresponding five months of the year before. The number of pieces sold were likewise greater, but less than the number sold during the first five months of 1919. In 1919 the mail order business aggregated $4,019,558.

The Perkins & Hastings Company has built up an excellent reputation for good quality merchandise at reasonable prices. The largest competitor has never done a business greater than two-thirds of that transacted in the Perkins & Hastings store.

In July, 1921, the question of giving up the mail order business was considered by the executives of Perkins & Hastings store.

Question

How should they have decided?

Selling 71

Gorton Department Store—Mail Order Competition

When mail order competition was first felt in the Middle West, some retail stores secured as many mail order catalogs as possible, piled them up in huge piles, and set fire to them. Photographs were taken of these bonfires and sent to the mail order houses to discourage them from competing with retail stores in that locality. This method of combating mail order competition increased the interest of the public in mail order houses, and, as these companies grew, some department stores in the Middle West were seriously affected by mail order competition. The Gorton Department Store is among the stores which are trying to meet mail order competition.

It has been proposed that the store advertise especially low-priced leaders and compare its prices with the prices of similar articles offered by mail order houses. In publicity of this kind the names of the competitors would not be mentioned. The difficulty in this plan is that in a majority of cases the prices of the merchandise offered by the Gorton store are higher than the prices of the mail order houses, and it would be easy for these competitors to use the same type of advertising to their advantage.

Another method of meeting mail order competition which has been suggested is that the store should stage an educational campaign under the direction of the publicity department. The purpose of this campaign would be to instruct the public in the advantages of dealing with department stores rather than with mail order houses. For example, the store would attempt to bring out the point that the money paid to mail order houses was sent out of town and not spent in building up the town or furnishing additional employment for local citizens. The argument would also be used that adjustments for unsatisfactory merchandise are difficult to make with mail order houses.

This campaign would also explain to the public why the prices of department stores are higher than those of mail order houses. It would be pointed out that the department store must carry a great many lines of merchandise in which there is a large depreciation because of the style element, while the mail order houses carry mostly staple articles. It would also be made clear that

in the long run the department store prices are fair and that the service received is much superior to that given by mail order houses. In this connection the slogan used would be, "See the merchandise before you buy it."

Questions

1. What steps should the Gorton Department Store take to combat mail order competition?

2. If an educational campaign is adopted, should this work be handled through newspaper advertising, circulars, or letters sent to customers as first-class mail?

Selling 72

The Olfene Department Store—Competition with Chain Stores

The Olfene Department Store, located in a city of approximately 80,000 population, was established in 1871. This city now has a large foreign population which appreciates price appeal more than the appeal of service, high quality, or style in the merchandise. In spite of the panics of 1893 and 1907, and the business depression in the fall of 1920 and the spring of 1921, this store has had a steady growth in its sales volume, slightly more rapid in some years than in others.

Within the past few years, however, the Olfene Store has had to meet the competition of a number of small specialty stores. These stores gradually have taken over a large part of the trade in women's waists, neckwear, millinery, and suits. Since these lines of merchandise were formerly among the most profitable ones carried by the Olfene store, the competition of these specialty shops has been seriously felt. Many of these shops are owned by foreigners, who are able to sell merchandise at low prices because the salesgirls are usually members of the family. This

fact also makes it possible for the specialty shops to escape the law prohibiting women employees from working more than eight hours a day; consequently, these stores are frequently open at night during the hours that the Olfene store is closed.

Because these specialty shops sell mainly for cash, have no expensive restrooms, restaurants or special services, and use boys to deliver packages after school hours, their overhead charges are not as great as those of the department stores. Many of these shopkeepers, moreover, do not understand proper methods of accounting. If they own their shops they usually do not make any charge for rent nor do they pay themselves or their wives salaries. Consequently, the Olfene store is faced with a dangerous form of blind competition that is not based upon the true cost of doing business. Although hard times or "cut-throat" competition may drive out some of these shops, others are almost sure to take their places in a short time.

The effect of this competition has been noticeable in the sales of the waist, neckwear, millinery, and women's suit departments of the Olfene store. The buyers of these departments are therefore desirous of finding some means of combating effectually this form of competition. They have suggested that the managers of the store allow them a special appropriation to fight these specialty shops. If their request is granted, they propose to go into the New York market, buy up a large number of fancy waists, millinery, and other merchandise, and put these goods on sale at prices which will drive many of the specialty shops out of business. The buyers of these four departments assert that their total loss in a three months' campaign of this sort would not be any greater than the loss in an entire year under present conditions.

The directors of the Olfene store, however, are convinced that the only way to be successful is to give high quality and service at a price that will permit a reasonable profit. They are opposed, therefore, to this plan of the buyers to purchase large stocks of cheap merchandise to be sold at less than cost, since they feel that notwithstanding the large foreign element in the city, such a policy would injure the store's prestige with its customers.

Question

What steps should be taken by the Olfene Department Store to meet this specialty shop competition?

PART VII

STOCK PROBLEMS

PART VII

STOCK PROBLEMS

PROBLEMS of stock handling and control are important in retailing because they form a large source of internal loss. If one were to look only at a profit and loss statement of a store to determine the major problems, he would undoubtedly decide that the expense incurred was not enough to warrant an extensive study of stock problems. At this point an expense statement would fail to be a satisfactory guide to the problems of retailing, because it would ignore a consideration of losses which occurred before expenses began.

This book has divided the steps in handling merchandise into three groups, Selling, Stock and Buying. Many stores consider only selling and buying as major problems and include those of stock under the other two. They would be better protected, however, if they recognized the importance of careful stock methods and would undoubtedly show less stock losses if these problems were considered by themselves.

Many of the larger stores have recently included in their organization a Traffic Manager to care for the merchandise from the time the order is placed until it arrives at the store. Receiving and marking methods are being rapidly improved. It is true that they vary so greatly with individual conditions that no standards can be set, but here, as elsewhere, there are certain principles determining correct practice as against wasteful methods.

The problems of the physical care of reserve stock, and of stock records which account for the merchandise, naturally lead to a discussion of better protective methods. Inventory plans, kind of inventories, and protective inventory methods stand out as big problems in every store, whether large or small.

The losses from incorrect stock handling are finally shown along with other merchandise losses in the stock-shortage figures.

Whether a store is operating on a cost or retail inventory basis, it should have some means of determining stock shortages. The importance of shortages is made perfectly clear when one realizes that in many stores the difference between book inventory and actual inventory amounts to from 3 to 5% of sales volume.

The following classification is used in this book for stock problems:

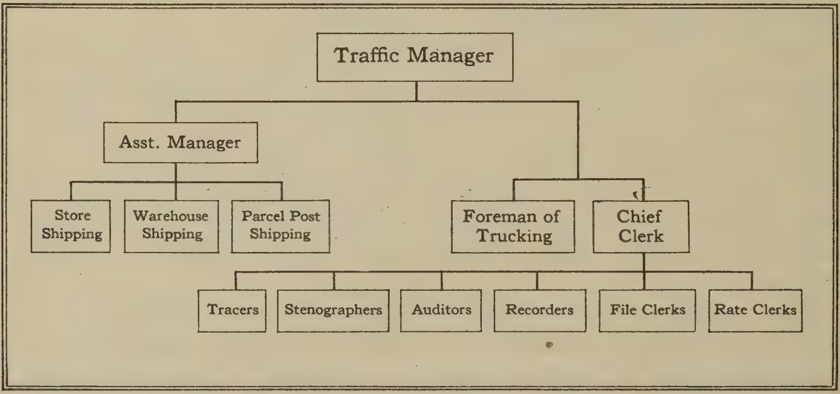
A. Traffic Management
B. Receiving and Marking
C. Reserve Stock
D. Stock Records
E. Inventories
F. Stock Shortages

A. TRAFFIC MANAGEMENT

Stock 1

Andrew W. Trelegan & Company—Organization of the Traffic Manager's Office

In the department store of Andrew W. Trelegan & Company, the traffic manager's office is organized as shown in the following form:



FORM No. 51. Andrew W. Trelegan & Company—Traffic Manager's Office Organization

Under Store Shipping are included the functions connected with shipping merchandise from the store proper by freight and

express, and under Warehouse Shipping are included similar functions in connection with goods shipped from the warehouse by freight and express. Under the Parcel-Post Shipping is included the mailing of parcels from both store and warehouse. As a rule, only very heavy articles are sent direct from the warehouse, and hence only occasionally are goods sent from there by parcel-post. The shipping division has nothing to do with wrapping, packing, or baling. It receives the goods after they have been prepared for shipment by the packing department; but it is responsible for the method of packing when the method has an effect on the rate classification in which the shipment will be included. Similarly, goods are given to the parcel-post shipper already packed. The office must then weigh each parcel, place a rate upon the parcel, determine whether or not the parcel should be insured, and whether or not it is packed satisfactorily, and write upon the package the amount of postage. The parcel is next sent to the stamp clerk, who places the necessary stamp upon the package, and puts it in a truck. When the truck is filled, it is locked and hauled to the post-office.

The foreman of trucking has charge of the dispatching of all the trucks which are used in taking merchandise from the store to the carriers or from the carriers to the store. He has complete charge of the drivers and helpers, but is not concerned at all with the maintenance of the trucks. Neither is he responsible for the garage men. These functions come under the engineering department. All the office work is in charge of the chief clerk. The duties of the stenographers, tracers, and file clerks are obvious. There are two auditors, one who audits the express bills, both inward and outward, for rates, extensions, and totals, and one who audits freight bills for extensions and totals only. The rate clerks check the rates only on freight bills.

Mr. Herman P. Hendrickson, traffic manager at Trelegan's, in an interview, stated that the duties of the traffic manager should be as follows:

1. Quoting rates.
2. Routing of consignments, inward and outward.
3. Exercising complete supervision over the receiving and shipping departments.
4. Bearing complete responsibility to the management for all outgoing goods after they are placed on the shipping floor; and for all

incoming goods up to the time they are delivered to forward stock or to reserve stockrooms under the charge of the departments.

5. Supervising any and all expenses connected with the transportation and handling of merchandise in transit or on the receiving floors, and controlling and supervising methods of handling merchandise, including trucking to and from the carriers' stations and the use of trucks in competition with regular carriers.

6. Tracing lost and delayed shipments; preparing and prosecuting claims; auditing and settling all bills, and supervising all packing in so far as the cost of transportation or the safety of the goods is affected.

In order to make the duties of the traffic manager clear, Mr. Hendrickson added that in other stores the responsibility of the traffic manager usually ends at one of the following points:

1. After the goods have been delivered to the street receiving platform.

2. After goods have been checked against the invoice and delivered in good condition to the stockroom or department.

3. After the goods are marked and ready to go into reserve or forward stock.

4. After the goods are ready to go into forward stock, that is, the traffic man is responsible for the reserve stockrooms.

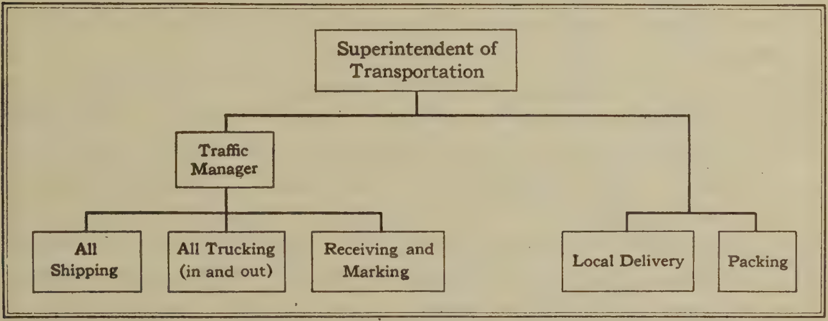
Mr. Hendrickson stated that the duties of the traffic manager vary in the different retail stores. Some have charge of incoming goods, but do not have control of the outgoing. In other stores the situation is just the reverse. The usual reason for this is that the position of traffic manager has grown out of either the shipping or the receiving departments established in the store before traffic management was recognized as a separate function controlling both the incoming and outgoing shipments.

Supervision of the shipping departments has been generally recognized as a function of the traffic manager, but such is not the case with the receiving, packing and delivery departments. This relationship, according to Mr. Hendrickson, is not logical, especially regarding the packing and receiving departments. The cost of transportation and the safety of the goods are directly effected by the methods employed and materials used in the packing department. Hence, the need for supervision of the packing. It is the duty of the traffic manager to see that all incoming goods invoiced are received and in good condition. If a shortage or damage occurs, he is called in to determine the

responsibility for it and to prepare and prosecute claims for such loss or damage. If he has no control over the receiving department, the goods have passed out of his control before this condition is discovered.

In order to make his work run smoothly it is necessary for him to lay down rules for packing, receiving, recording, and checking of merchandise, assembling of records, reports and data over which he has no control.

In order that the traffic manager may have control over all these functions, for which he is wholly or partially responsible, Mr. Hendrickson suggests that the store have a new official, called the Superintendent of Transportation, with powers as indicated in Form 52, and that another official, who would correspond to the present traffic manager and who might or might not bear that title, should be placed under his supervision.



FORM No. 52. Andrew W. Trelegan & Company—Suggested Organization Superintendent of Transportation Department

In Trelegan's store there is now a superintendent of delivery, who has charge of all of the delivery service and the work of delivering merchandise by their own vehicles. The superintendent of the garage has charge of all motor vehicles and equipment and of the repairs and maintenance. Horses, wagons, equipment and maintenance are under the supervision of the superintendent of the stables. The packing department and the receiving department are separate departments under separate supervision, designated as head of packing and head of receiving.

Question

Should the store adopt the suggested organization?

Stock 2

Strauss Department Store—Shipment by Freight or Express

In one of the large middle western cities the express company has placed an agent in several of the big department stores. The duties of this agent are to see that all express packages are received promptly and turned over in good condition to the foreman of the receiving and marking room. He is responsible also for the proper handling and routing of outgoing shipments. The purpose of the express company, in this move, is to reduce the number of claims for damage filed by department stores. The express company also hopes to render better service and thereby increase the amount of department store business, routed that way. These agents, whose salaries are paid by the express company, have in some instances been used as traffic managers by department stores which have accepted this free service.

The Strauss Department Store has not accepted the offer of the express company, to place an agent in the store, since it is interested in reducing shipping expenses by establishing a package-freight service from New York. Arrangements have been made with the railroad companies by which a special car, consigned to the Strauss Store and three other department stores, will leave New York every night except Sunday. The railroads agree to expedite the movement of these cars. Several trial cars have gone over the road, with the result that merchandise has arrived at the Strauss Store on an average of about three and one-half days after it has been shipped from New York. It has been estimated that at the most the package freight is only a day slower than express.

In making a study of the situation, the planning department of the Strauss Department Store reported that a large Pittsburgh furnishings store had encountered difficulty in getting its buyers to use the fast-freight service because they were accustomed to thinking that articles shipped by freight from New York to Pittsburgh would not arrive for a week or 10 days. Therefore, when buyers of the Pittsburgh store purchased merchandise in New York, they continued to specify shipment by express. The difficulty was that no hard and fast rule could be laid down, requiring the shipment of all merchandise by package freight. Consequently the management organized a traffic department

to handle the routing of all merchandise shipped to or from the store. The traffic department was successful in educating buyers to use the package-freight service, but the expenses entailed in the operation of this department offset to a certain extent the advantages of the cheaper rate secured by fast freight.

The management of the Strauss Store thinks, however, that by taking the buyers into the confidence of the management and explaining the difficulties encountered by the Pittsburgh store it may be possible to educate them to make use of the package-freight service.

A Boston department store is likewise considering the advisability of having purchases shipped from New York by means of fast freight. The head of the research office has reported to the chief executives of the store that the cost of package freight would be one-half that of express. The saving, however, would be lessened by the cartage charged at both ends, though in many cases it would be possible to induce the shipper to pay for cartage in New York. Moreover, shipment by freight would require more careful packing than is commonly acceptable to express companies. Though an overnight service is promised, there would be a loss of time in New York, because freight deliveries must be made by 3:00 o'clock as contrasted with 5:30 in the case of express. Upon arrival in Boston, the shipment would be subject to further delay. According to the investigation of the research office, the average package-freight parcel could not be counted upon to reach the store until the middle of the afternoon, whereas express packages usually arrive in the early afternoon.

Questions

1. Should the Strauss Department Store accept the offer of the express company to place an agent in the store, or should it adopt the package-freight service?

2. What use should the Boston department store make of the package-freight service?

B. RECEIVING

Stock 3

John Weatherbee & Company—Stockroom Control in a Small Store

The store of John Weatherbee & Company is situated in a town of 50,000. For the last five years annual sales have averaged just under $700,000. The merchandise carried at Weatherbee's includes a greater variety than is common for department stores of similar size: women's cloaks, suits, dresses, waists, lingerie, shoes, gloves, and hats; men's coats, suits, hats, shoes, and haberdashery; infants' wear; children's suits, underwear, and shoes; misses' and boys' furnishings; piece goods, kitchenware, furniture, rugs, draperies, groceries, books, jewelry, toilet goods, pictures, phonographs, and sporting goods.

The management believes in carrying a good-sized stock because the store is 80 miles distant from Boston and 290 miles from New York, and no other buying center is within reach. All the stock is kept in the cellar, the dimensions of which are 100 feet by 100 feet. The arrangement of the stockroom has been a difficult problem because the furnace, coal bins, and ash cans are in the middle of the cellar. Consequently, it has been necessary to isolate portions of the stock in order to make available odd corners, nooks, and crannies.

For some time the management has considered installing a system of control over the receiving and marking room and hiring a foreman for this room who would have authority over the buyers. A separate marking room would involve an outlay of $3,000. The only feasible arrangement for this would be the erection of a shed connected with the cellar adjacent to the back entrance. The management, however, is disposed to expend the money on other improvements.

Question

What scheme of control should be suggested?

Stock 4

Moline Store—Receiving and Marking System in a Small Store

The Moline Store is the largest retail establishment in a town of 17,000 inhabitants situated 20 miles from a large city. It occupies a building on the busiest corner of the town. It is an old structure not adapted for the purpose of department store layout. All departments are cramped for space.

In the Moline Store there is a man in charge of receiving and marking, and delivery, all of which are taken care of in a single room. He is called the "shipper." Two boys assist him. They run errands and deliver bundles. About 110 bundles a week are carried by the boys to the residences of customers. The remainder, about 95 more, are sent by parcel-post. All bundles are wrapped by the salespeople upon the completion of a sale.

When goods are received, the buyer by whom the order was placed is notified. He designates a clerk to check the shipment against the invoice, and then personally inspects the goods. The same clerk marks with indelible pencil the tickets on the merchandise in accordance with retail prices appearing on a copy of the original purchase order which is kept on file by the shipper. Mark-downs are handled in the department under the direction of the buyer or his assistant; a clerk crosses out the figure appearing on the ticket and writes underneath the mark-down price.

Mr. Moline, the owner and manager of the store, is satisfied that his average stock shortage, around 6%, is not unduly large. This he attributes to the cordial relations between himself and his subordinates. He has, however, been repeatedly warned by business friends that the Moline Store is in need of a system of merchandise control. As it is operated now, there is serious danger of loss by theft or errors in the physical handling of the stock and in the clerical work.

The Moline Store's annual sales average just under $1,000,000. Men's and women's furnishings, and dry goods are the only lines handled.

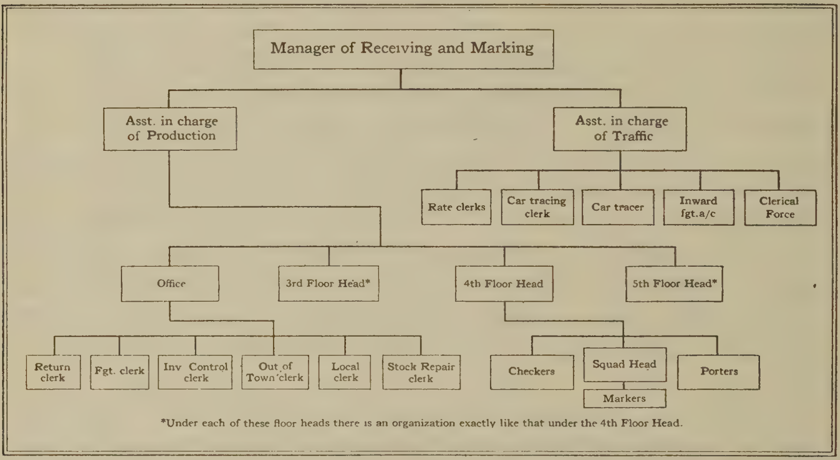
Questions

1. Should changes in the method of receiving and marking merchandise be recommended?
2. If so, what changes do you suggest?

Stock 5

P. T. McManus, Inc.—Organization of Receiving and Marking Departments

The department store of P. T. McManus, Inc., carries merchandise of a price and quality appeal planned to create a large volume of sales. In this store all functions which have to do with receiving and marking merchandise, storing merchandise before it goes into forward stock, and getting the merchandise into the building, are placed under an officer called the Manager of Receiving and Marking. The organization through which this manager operates is indicated by the following form:



FORM No. 53. P. T. McManus, Inc.—Organization of Receiving and Marking Department

All goods are received from the trucks at the receiving platform on the ground floor. From here the goods are distributed directly to the receiving rooms on the 3rd, 4th, and 5th floors. The receiving room on the 3rd floor handles incoming merchandise to be sold in departments on the 1st, 2nd, and 3rd floors; the receiving rooms on the 4th and 5th floors handle only merchandise which is to be sold in departments on their respective floors. Adjacent to the receiving room on the third floor are the offices of the manager of receiving and marking, and his two assistants, and the general offices of the department.

When the merchandise is received in the receiving department from the receiving platform, the cases are opened and the mer-

chandise placed upon a table in the bay for the department to which the merchandise is going. Meanwhile, the invoice has gone up to the department and has been placed upon the buyers' file. Twice each day the buyer must go to this file, and if any invoices appear there, he must check them, inspect the merchandise and enter the retail price per article upon the invoice. After the goods have been priced by the buyer, the invoice goes to the checker, who makes a count of the merchandise and checks it against the invoice. One of the squad-heads then takes charge of the invoice and assigns it to one or more markers under him. They mark the goods as directed, using the proper tags. When the goods have been marked, they are delivered to reserve or forward stock as may have been directed. If, in checking, any "overs," "shorts," or "damages" are found, the signature of the squad-head in charge of marking the goods must be secured. When the goods are marked, the invoice is returned to the invoice-control clerk in the office. This clerk prepares a list of the invoices which come to her and places against the invoices on this list an O. K. indicating that the receiving department has finished its work properly.

As has been implied, each department has in the receiving room a space or bay where its merchandise is stored, pending marking. Each squad-head usually has charge of marking one kind of merchandise, but this is not always the case. The entire marking force is flexible and on occasion may be concentrated on a single, large lot of merchandise. Marking is done by ticket-printing machines, by pencil, ink, and rubber stamp. Tags are designed in accordance with the type of merchandise and approximately 100 varieties and colors are used.

In taking mark-downs the store requires that all marking be done by members of the staff of the manager of receiving and marking. They alone have authority to change price tickets. The buyer who wishes to mark down merchandise makes a request on the proper form, stating his reasons and the date that the mark-down is to become effective. This request is countersigned by the merchandise manager, and a copy sent to the manager of receiving and marking. He assigns the work to a squad-head, who selects as many helpers as may be needed and goes to the department at the proper time to take the mark-down. The store believes that this procedure is preferable to

bringing the merchandise to the receiving and marking room for re-marking, because it eliminates damage to the merchandise in handling, waste motion, and the loss of merchandise in transit.

From the chart and from the above description, it is obvious that the buyer comes into contact with the receiving and marking department only when retailing invoices and when putting through a mark-up or a mark-down. In exceptional cases he may go directly to the head of the receiving and marking department to inquire about merchandise which has been delayed. According to the store's theory of organization, it is the duty of the management to get the merchandise into the store, and to have it marked and put into forward stock on time. With the authority and responsibility divided as has been indicated, the management cannot hold the buyer to account for stock shortages due to errors in marking, whether previous or subsequent to the time the goods were first placed on sale.

The assistant manager in charge of traffic is responsible for the movement of goods from the time they pass into the hands of the carrier until they arrive at the receiving platform. In addition, he is responsible for moving the merchandise at the most reasonable rates and for the safety of the merchandise while in transit. In the execution of these duties he acts as a liaison man between the manager of receiving and marking and the manager of delivery, and between the manager of receiving and marking and the carriers. This traffic man is expected to cooperate with the buyers to see that in their orders they specify the most economical routing. Also, he is responsible for having rush orders for merchandise for special sales delivered at the receiving platform in time sufficient for the receiving department to mark the goods and prepare them for sale when needed. He must attempt to reduce freight charges by decreasing less-than-carload shipments and increasing carload shipments. In case merchandise is damaged in transit, or shortages occur in transit, the receiving department presents the facts to the traffic man, and he prepares and prosecutes the claim against the carrier. Finally, the traffic man must handle the claims for unpaid or undelivered C. O. D. shipments made through agencies other than the store's own delivery equipment.

To assist him in carrying out his work, the assistant manager in charge of traffic has rate-clerks in his office, who see that

incoming merchandise is classified under the most favorable tariff; a car-tracing clerk, who does such car-tracing as can be done in the department; a car-tracer, who traces cars in cases requiring work outside the department; a clerical force which checks the extensions and totals on freight bills; and a bookkeeper, who is in charge of the inward freight account. This inward freight account is usually called a wash account. Freight bills are paid as soon as they are audited, regardless of whether or not the store or the shipper should stand the charges, and this inward freight account is debited. If the shipper is to stand the freight charges, his account is debited and inward freight is credited. If the store is to stand the freight charges, this account is credited and the freight account in the general ledger debited.

When the work of the traffic management was first recognized by the store as a separate function and placed in charge of a minor executive, a traffic manager was hired and placed in a position coordinate with that of the manager of receiving and marking. His office was in the general offices of the firm. Later, it was decided that here the traffic manager was too far removed from the work in his charge, and that the manager of receiving and marking, who was actively interested in getting merchandise into the store on time, could easily utilize his force to do this work. For these two reasons the old position of traffic manager was abolished, and the manager of receiving and marking was instructed to detail an assistant to take charge of this work. Under the new arrangement, the traffic man does not obtain his information second-hand, but gets authentic data from the actual handling of transportation problems. He sees the merchandise as it comes in. He understands the methods of each shipper and each carrier; how each packs, how carefully each handles merchandise, with what promptness each acts, and so on. He gets a contact with his work, in the receiving department, that would be impossible if his office were in the executive offices as formerly.

Questions

1. Is the store's division of responsibility between the buyer and the manager of receiving and marking sound?

2. Could an organization more effective for getting work done be substituted for the one shown under the assistant in charge of production?

3. What are the advantages and disadvantages of placing the traffic man as was done in the McManus store rather than giving him the position of authority as was done in the store of Andrew W. Trelegan & Co.?*

*NOTE.—See Andrew W. Trelegan & Company, page 588.

STOCK 6

HAGGETT DEPARTMENT STORE—CENTRALIZED OR DECENTRALIZED MARKING AND RECEIVING ROOM

The Haggett Department Store employs over 800 people and is one of the largest department stores in a western state. It not only caters to a large proportion of the 300,000 inhabitants in the city in which it is located, but it also draws its clientele from the surrounding districts. The layout of the Haggett store is as follows:

7th floor:
    Stockrooms, fur storage, alterations, receiving and marking rooms.

6th floor:
    Office, restaurant, and china.

5th floor:
    Furniture and fixtures and receiving and marking rooms.

4th floor:
    Art goods, rugs and draperies.

3rd floor:
    Women's ready-to-wear, negligee, waists, dresses, sweaters, receiving and marking rooms.

2nd floor:
    Shoes, fur goods, corsets, muslin underwear, boys' clothing.

1st floor:

Small wares, jewelry, silver, leather goods, stationery, notions, neckwear, hosiery, toilet goods, and men's furnishings.

Basement:

Bargains, house furnishings, toys, men's clothing, marking and receiving rooms for jewelry and art goods.

Most of the merchandise is received and marked in the room for this purpose on the top floor. Exceptions are made in women's wearing apparel, art goods, leather goods, silverware, notions and small wares, because most of the central receiving and marking room force is not capable of identifying the different kinds of merchandise in these classes and might make mistakes in checking up the invoices or in marking the goods. Lots of this merchandise are continually being received at the store, and specially trained people are required to maintain a proper check. Exceptions are also made in the case of furniture and fixtures, since the large bulk and heavy weight of this merchandise makes it impracticable to unpack and mark it on one floor before moving it to its regular department. In all these cases, therefore, the goods are received and marked in special rooms by employees of the departments for which the goods are intended.

Decentralized stockrooms are maintained under the supervision of the buyers for each department. This policy was put into effect because the directors of the store believed that if a buyer was responsible for selling merchandise as well as purchasing it, he also ought to have the responsibility for the proper storing of it. Also, during the dull periods of the day, salespeople and other employees of any department can assist in keeping the stockrooms in proper shape, thus doing away with the need of a special stockroom force.

Recently a specialist on department store system was called in to go over the methods in use in the office with the idea of cutting out duplication as far as possible and thereby reducing the size of the office force. When this work had been completed, the specialist was asked to make recommendations in regard to changes in the other sections of the store. In this report the specialist stated that in his opinion the existing system of decentralized receiving and marking should be done away with and all merchandise received and marked under a centralized system. If responsibility for the proper receiving and marking of all

merchandise were placed upon one foreman, all this work would be done in a uniform manner by trained employees, and the salespeople would be left free to devote their time and efforts to caring for forward stock and selling the goods. He stated that it was his experience that buyers sometimes used poor judgment in making their purchases and that if they had charge of marking, they would try to cover up these errors by a low percentage of mark-up, hoping to build up their profits at the end of the year by a larger mark-up on other merchandise. If all the marking was centralized under one foreman, the large number of mark-downs taken by such a buyer would at once disclose to the management his inability to handle the department. He proposed that the stockrooms should be centralized and that no merchandise should be taken out by a buyer without a requisition, since many errors in keeping records often resulted from allowing salespeople and employees of other departments to enter these rooms. In this way, it would be possible to check up stock shortages and determine whether or not they were the fault of the employees in any particular department.

The managers of the Haggett Store have always considered their present system satisfactory. They have never had any trouble due to the fact that goods are received and marked in certain instances by employees of the selling departments. They admit, however, that since the records have always been in the hands of the buyers, they have had no opportunity to check up mistakes of this nature. All the departments, nevertheless, appear to be growing, and the profits have increased, as a rule, every year. The managers are, therefore, somewhat skeptical as to the advisability of acting on the report which has been submitted to them.

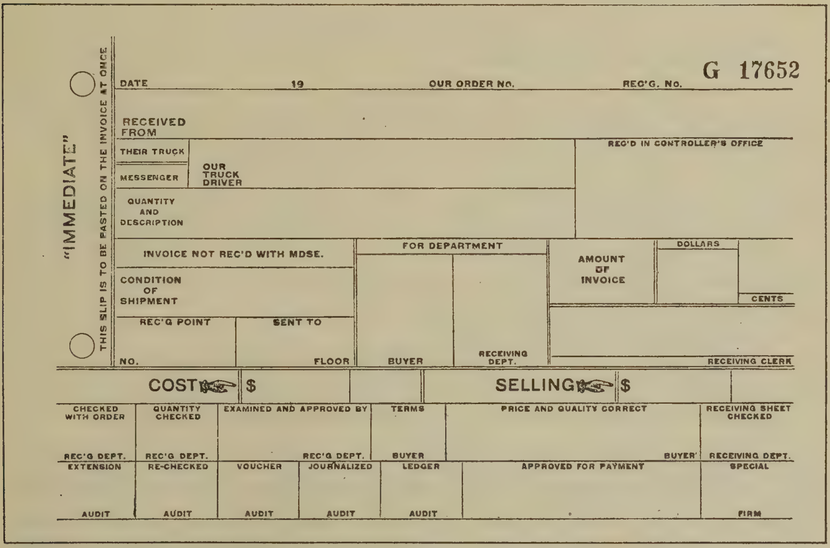
Questions

1. Should a centralized receiving room be installed by the Haggett Store?
2. Should separate marking rooms be maintained for certain departments, or should all merchandise be marked in centralized marking rooms?
3. Should a centralized stockroom be established?
   (*a*) If so, should all buyers be required to requisition their merchandise out of stock?

Stock 7

The Twin Cities Department Store—Invoice Control

In the Twin Cities Department Store, it is required that all incoming merchandise be accompanied by the invoice. When the merchandise is received at the platform on the first floor, the clerk there fills out the receiving slip (Form 54) in triplicate, stamping on both the invoice and the driver's receipt the serial number which appears on the receiving slip. The receiving slip and the invoice are then dispatched through a pneumatic tube to the order-checking department. The duplicate receiving slip is forwarded to the invoice control section in the controller's office, where it is listed on a card showing the receiving slip number, the department number, the money value of the goods, and the vendor's name. A new set of these cards is made out each day, so that the card indicates the date on which the invoice came into the store. The triplicate remains in the machine on which the receiving slip is written, and at the close of the day these triplicates are removed and taken to the controller's office for filing.


"IMMEDIATE"
THIS SLIP IS TO BE PASTED ON THE INVOICE AT ONCE
DATE 19
OUR ORDER NO.
REC'G. NO.
G 17652
RECEIVED FROM
THEIR TRUCK
MESSENGER
OUR TRUCK DRIVER
REC'D IN CONTROLLER'S OFFICE
QUANTITY AND DESCRIPTION
INVOICE NOT REC'D WITH MDSE.
FOR DEPARTMENT
AMOUNT OF INVOICE
DOLLARS
CENTS
CONDITION OF SHIPMENT
REC'G POINT
SENT TO
NO.
FLOOR
BUYER
RECEIVING DEPT.
RECEIVING CLERK
COST $
SELLING $
CHECKED WITH ORDER
QUANTITY CHECKED
EXAMINED AND APPROVED BY
TERMS
PRICE AND QUALITY CORRECT
RECEIVING SHEET CHECKED
REC'G DEPT.
REC'G DEPT.
REC'G DEPT.
BUYER
BUYER
RECEIVING DEPT.
EXTENSION
RE-CHECKED
VOUCHER
JOURNALIZED
LEDGER
APPROVED FOR PAYMENT
SPECIAL
AUDIT
AUDIT
AUDIT
AUDIT
AUDIT
FIRM

FORM No. 54. The Twin Cities Department Store—Receiving Slips

In the order-checking department, which is located in the office of the receiving and marking room, the invoice is checked against the order for quantities and prices. It is then placed on the file for the buyer of the department to which the goods are going, and it remains on this file until approved by the buyer, who indicates his approval by entering the retail price per article against each item. The entering of the retail price also indicates that the buyer has inspected the merchandise and pronounced it satisfactory.

As soon as it has been approved by the buyer, the invoice is sent to one of the chief markers, who assigns it to one or more markers. These persons verify the invoice by checking it with the merchandise, as regards both kind and quantity, and mark the merchandise in accordance with the prices which the buyer has placed on the invoice. When they have finished, the invoice is ready for payment and is returned to the payment clerk in the office of the receiving and marking room.

INVOICES READY FOR PAYMENT. № 4900

TO THE CONTROLLER:- *Date*__________

Attached please find......invoices as listed below. The goods have been received and delivered to their respective departments. The invoices have been examined, approved, and are being delivered to the Executive Office.

Signed__________ Department__________ Time__________

Dept. No.	Receiving Number	Amount Of Invoice		Dept. No.	Receiving Number	Amount Of Invoice		Dept. No.	Receiving Number	Amount Of Invoice	

I have received the above________invoices.

Signed__________ Department__________ Time__________

FORM No. 55. The Twin Cities Department Store—Invoice Form

The payment clerk lists the invoices on Form 55, which has space for 50 invoices. This form is made out in duplicate and both copies of the form, accompanied by the 50 invoices, are sent to the treasurer's office for countersignature. The countersignature is required at this stage merely in order that the treasurer's office may be advised of how fast invoices are

coming up for payment, and thus be enabled to make proper financial provision. From the treasurer's office the two copies of Form 55, with the 50 invoices attached, are sent to the invoice control section in the controller's office. Here the invoices are checked against Form 55 to make sure that all have been received from the treasurer, and then the original of Form 55 is retained in the invoice control section and the duplicate accompanied by the invoices is sent to the auditing section for audit.

It will be recalled that the duplicates of the receiving slip went directly from the receiving platform to the invoice control section, where they were entered on cards numbered for each day. These cards are printed in the following form:

From......................
To......................... Date...................

Receiving Number	Dept.	Amount		Name	Date Closed Out	Back List
TOTAL						

Only the first four columns of this form are filled out from the duplicate receiving slip. These entries are made on the day the invoice and the merchandise are received into the store. In the fifth column, "date closed out," is entered the date on which the invoice is passed for payment, and this date is determined from the original of Form 55, which comes to the invoice control section from the treasurer's office as has been described.

After the extensions and totals on the invoice have been audited in the audit division, and after any deductions have been made, the auditing division fills out Form 56 and forwards it to the cashier. This form is an order on the cashier to make payment. The duplicate of the order is filed with the invoices listed on the order.

Each day a clerk in the invoice control section goes over the cards (see form above) and draws up a list of all invoices which

have not been closed out within 10 days from the date on which they were entered. That is, the clerk lists all invoices which have not been passed for payment within 10 days after the order and the merchandise were received.

The back list, showing the receiving slip number, the department for which the goods were intended, the amount of the invoice, and the vendor's name for each invoice which has been in the store 10 days or more, is sent to the receiving and marking room daily. The receiving department investigates these invoices and reports to the controller's office any items which cannot be closed out that day. The controller's office then takes the necessary steps to see that the bill is passed for

We hand you herewith our check in FULL PAYMENT of the invoices noted below. If discounts or other deductions are in error, check should be accepted by payee, and remittance notice returned direct to the Adjustment Division of our Controller's Office, stating the nature of the error. Errors will be corrected promptly through later checks. We endeavor to pay all bills promptly. If you have any charge against us of an older date than the invoices hereafter noted, please send duplicate invoices IMMEDIATELY, noting our Order No. thereon. KINDLY NOTE INSTRUCTIONS ON OUR ORDERS. No goods are received by us except in accordance therewith. Unless countersigned by an Officer of the Corporation no order is valid for more than thirty days from date of issue.

Twin Cities Department Store

Minneapolis

MAIL YOUR ORIGINAL BILL OF LADING WITH OUT OF TOWN INVOICES.

NOTE OUR SHIPPING INSTRUCTIONS ON BACK OF OUR ORDER BLANK.

OLD BAL.	DATE	DATING	AMT. INVOICE	TERMS	REMARKS	DEDUCTIONS	BALANCE DUE
					OUR CHECK HEREWITH		

Ent'd. by Figured by Checked by

FORM No. 56. The Twin Cities Department Store—Order for Payment Form

payment and that the discount is secured. Charts are maintained in the office of the invoice control section showing by weeks the number of invoices received into the store, the number closed for payment, and the percentage of invoices on the back list. This percentage is computed by dividing the number of

invoices on the back list each day by the number of invoices received into the store each day, and then averaging the six daily percentages. Four reasons why invoices may get upon the back list are designated:

1. The shipment may be short some merchandise, and payment may be held up pending investigation.
2. There may be some question about the goods because of which the invoice is being held in the receiving room.
3. It may be that the merchandise arrived before the invoice and that the entry on Form 54 was made from the duplicate of the receiving slip before the invoice arrived.
4. The delay may be due to negligence in the receiving department.

As a rule, no goods are marked until the invoice has arrived. Goods purchased for special sale, however, may be marked and entered on a "hold-for-bill" sheet which will be checked against the invoice when it arrives. The invoice does not leave the receiving and marking room until goods have been marked at retail price.

The Twin Cities store does a business of approximately $12,000,000 a year. Its sources of supply are Chicago, St. Louis, and New York, the former city supplying a slightly larger amount than either of the others. Shipments arrive in such a manner that approximately 200 or 250 invoices, normally, are received each day.

Questions

1. Could any of the steps in the invoice control system of the Twin Cities store be eliminated without sacrificing either speed or accuracy?

2. What changes in the system should be made for a store which has to handle 500 invoices a day?

Stock 8

Kraften Bros.—Blind Check and Ticket Control

As the result of a stock shortage of 1.8% of sales totaling $5,012,437 in 1921, Kraften Bros., operating a medium-priced department store, engaged a man as controller who had been highly successful in reducing stock shortages in a Chicago store.

The new controller, Mr. R. L. Miner, put in a marking room foreman to be responsible for the proper functioning of this department. The foreman was instructed to see that each piece of goods that came into the house passed through the marking room. Mr. Miner insisted on the invoice number being on the ticket as well as the cost and the retail price, and a "seasonal cipher" (for example, for goods received in May the ticket is marked "A," in June "B," and so forth). In addition to requiring systematic checking of merchandise by the inspector, the new controller provided for random checks at frequent intervals by the auditing department.

He made a ruling that salespersons should not enter the marking room at any time without a pass. This ruling was also extended to buyers, who were furthermore instructed to appear at the marking room every day at 10 a. m. and 4 p. m. to inspect the goods of their departments. A separate enclosure was provided for the marking room. New equipment was purchased. When Mr. Miner came into the store, he found checkers and markers cramped over low tables in awkward positions. These tables were exchanged for higher ones, which were placed on rollers in order to adapt the layout of the room to the requirements of incoming merchandise. Another innovation was the use of a ticket-printing machine. Yard-measuring machines were purchased for the selling departments, and likewise new trucks to convey goods from the marking room to the departments. These trucks were locked, one key belonging in the marking room and one in the department.

In the first three months of Mr. Miner's connection with Kraften Bros., the stock shortage was decreased by 0.8%, but the directors of the store were worried about the additional expense incurred. In the next three months the shortage was reduced an additional 0.2%. In making his report covering the second three months' period, Mr. Miner urged the adoption

in the receiving and marking room of the blind check and the requisition system for mark-up tickets. The blind check he had in mind was merely a short carbon copy of the purchasing order containing only a description of the incoming merchandise, upon which it would be necessary for the checker to write down the actual quantities received. The checker's results would then be compared with a complete copy of the purchasing order on file in the controller's office. Regarding tickets, Mr. Miner proposed that the foremen of the marking room should requisition as many tickets, no more and no less, as there were items to be ticketed. Under no condition should buyers be permitted to requisition tickets, whether for special orders or for returned goods.

Question

How should the directors of the store have acted on these suggestions?

C. MARKING

Stock 9

The Neil H. Brosman Company—Receiving and Pricing Methods in Chain Grocery Stores in Relation to Stock Records

The Neil H. Brosman Company has a chain of 677 grocery stores. The company operates in three of the larger cities of the Middle West, its stores being divided almost equally among the three cities and their surrounding communities. In managing the business the general office is maintained at Warehouse No. 1 in the home city of the chain. At this general office all the bookkeeping and accounting for the chain is done and all purchases are made. The warehouses in the three cities are run as separate subordinate units, each one receiving instructions

from the general office with regard to merchandise being shipped to the warehouse, prices at which merchandise shall be billed out to stores, and other matters. Each warehouse in turn bills out merchandise to the stores on a duplicate invoice. The copy of this invoice which goes to the store shows only the quantities, the articles, the retail price per unit, and the retail extension. The copy of the invoice which is filled out in the warehouse office contains this same data and in addition the cost price per unit and the cost extension.

As has been stated, all merchandise is purchased at the general office; also, all invoices from the sellers come into the general office. When these invoices arrive they are sent to the billing department, which checks them against the orders for quantities, items, and prices. From the invoice there is made out a notice called the cost slip, which bears a serial number, the date, and the following note:

> Please note the following new cost for warehouse. Number . . . . .
> Effective on shipments arriving on and after . . . .

Below this note there are columns for the article, the method of packing (that is, number of pieces per case, whether packed in barrels or in boxes), old cost, and new cost. This sheet has nothing to do with inventories or stock records; it is merely a notice to the warehouse concerned to change the cost price which it is using for billing out the merchandise named to stores.

In each warehouse there is a department known as the cost-pricing department. To this department are sent all the cost slips arriving from the general office. As these cost slips arrive they go to the clerk who enters them on a set of master cards, each bearing the name of the commodity, the date of the notice to change price, and the date on which the change in price is to take effect. This set of cards is used by the department head as a tickler to make sure that prices are changed on the dates when changes are to take effect. From the clerk in charge of the set of master cards the cost slips go to the clerks in charge of another set of cards. These cards bear at the top the name of the commodity, the method of packing, and several column headings as follows:

1. Date 2. Old cost 3. Old retail
4. New cost 5. New retail

On these cards the clerks enter the dates down on the cost slips, and these cards are used later by other clerks in entering the prices on invoices of merchandise shipped from the warehouse to the stores.

The cost slips from the general office are due in the cost-pricing department of the warehouse concerned two days before the change in price becomes effective. In case the cost-pricing department of any warehouse does not receive a price on a given commodity within what seems to be a reasonable length of time, that department advises the general office. Whenever articles are out of stock and new stock arrives, a new price must be sent from the general office. Investigation must be made if the cost as given on the cost slips exceeds the retail price per case, or if large changes are ordered which it seems may be in error. Also, if the old cost on the cost slip does not agree with the old cost on the cards, the matter is brought to the attention of the general office. For additional protection, new costs on all items are sent to the three warehouses each quarter.

Changes in retail prices are sent out by the cost-pricing department in each warehouse to the stores supplied from that warehouse. These changes are ordered on mimeographed bulletins which go to the store managers concerned.

In addition to the work of keeping track of the cost prices which apply at any given time and informing store managers of changes which they are to make in retail prices, the cost-pricing department must enter on all invoices, for merchandise shipped from the warehouse to the stores, the retail price per unit and retail extension, and the cost price per unit and the cost extension. It will be remembered that the original of the invoice bore only the retail price per unit and the retail extension. This original invoice accompanies the merchandise to the store; the duplicate goes to the cost-pricing department, and after the cost prices and extensions have been entered, is forwarded to the stock-record department to be entered in the stock ledger.

For making charges to the stores three types of invoice are used: the merchandise invoice for charging the stores with goods sent them for sale; the equipment invoice for charging stores for scales, cash registers, and similar items of equipment; and the expense invoice used in making debits for twine, supplies,

and other items of general expense incurred for the account of the store in question.

In handling the bills for shipments made directly from sources to store, the same method is followed except that the invoice for debiting the stores is made out from the invoice sent by the source instead of from the order filed by the store manager and the warehouse shipping clerk's memorandum.

In case one warehouse finds itself out of a given commodity and a supply is secured from one of the other warehouses, the warehouse making the shipment and the warehouse receiving the merchandise are credited and debited from entries made on an "interwarehouse shipment cost" form. The warehouse from which the merchandise is obtained is credited for the cost of the merchandise shipped plus its inward freight, cartage, and handling costs. The warehouse receiving the merchandise is debited at a figure which includes the cost of transportation and handling between the two warehouses in addition to the amount for which the shipping warehouse was credited. In billing merchandise out to stores from the second warehouse, this augmented cost is used. Retail prices, however, are not changed to give a normal mark-up on the augmented cost. The reasons which the company gives for following this policy are that it enables them to arrive more nearly at their true net profits and that it discourages interwarehouse shipments.

Whenever merchandise is received at a warehouse, it is delivered at the receiving platform, regardless of whether it arrives by rail, by shipper's truck, or by truck belonging to the Brosman Company. The checker on the platform makes sure, in case the merchandise arrives by truck, that he gets what he receipts for.

In case the goods arrive by rail, he ascertains whether or not the packages check with the railroad bills. For all incoming shipments the checker on the receiving platform makes out a receiving slip in quadruplicate, and, having made out the receiving slip, passes the goods on to truckers who place them in the proper space in the warehouse. In the case of merchandise likely to deteriorate in transit or any other merchandise which for any reason the checker thinks may be of questionable quality, he sends samples to the buyer or, if necessary, to the chemical laboratory for test.

The receiving slip bears a serial number in a prominent position at the top. In addition, at the top of the form there is the following information:

1. Received from . . . .
2. Date received . . . .
3. Received via . . . .
4. Platform number . . . .
5. Car initials and number . . . .
6. Charges . . . .
7. Seals . . . .

Below there are four columns for quantity, description, remarks, and tally. The tally column is used for taking the count of the merchandise, and the total is later entered in the quantity column. The remarks column is used for various information with regard to the condition of merchandise received, unusual circumstances regarding packing, and so on. At the bottom of the slip there are places for the signatures of the person receiving the merchandise, the person checking the receiving slip, and the person or firm by whom the merchandise was delivered at the receiving platform.

The original of the receiving slip is forwarded to the accounts payable department, where it is matched against the original invoice before that invoice can be paid. The second copy is a tissue which remains in the receiving office. The third and fourth copies go to the stock record office, one to be filed for future reference if needed, the other to be used for making entries to the stock records.

Questions

1. Does this system furnish the company with sufficient control of its cost and retail prices?

2. Should the company make any changes in its present method of recording receipts of merchandise?

Stock 10

Harrison-Jones—Need for Separately Enclosed Marking Room

Harrison-Jones is the name of a specialty shop with annual sales in the vicinity of $1,700,000. All receiving and marking is done in a room in the basement by permanent personnel under the direction of a foreman. Whenever buyers wish to visit the receiving and marking room to inspect merchandise or select samples, it is necessary to notify the foreman and explain the nature of the errand.

The equipment—such as tables, drawers, files, scales, measuring machines—and the layout are good. The foreman is considered capable by the executive of the store.

Recently the controller in making the rounds of the store to see that the mechanism of stock control was working properly asked the foreman if he felt sure that there were no leaks or errors in the receiving or marking room. The foreman replied that he was reasonably well satisfied, but that he could not guarantee the proper functioning of his department unless the marking room should be separated from the receiving room.

Question

What factors should be taken into consideration by the controller in determining whether or not to support the foreman's recommendation for a separately partitioned marking room?

Stock 11

Hoosac & Mills—Separately Partitioned Mark-Down Room

Hoosac & Mills is the leading bargain store in the city where it is situated. It is well known for its effective advertising of sensational bargain sales. Regular lines of inexpensive merchandise are carried, but the general rule in advertising is to feature job lots and comparative prices. The stock shortage for 1921 was 1.1% of sales, the sales amounting to $7,962,318.

The controller of the store reported that the largest percentage of loss occurred in departments having the largest price changes. He held that this shrinkage was caused, to the extent of 50% at least, by failure to change tags to agree with mark-down records.

Requisitions for mark-down were made out in triplicate, one copy going to the merchandise manager, one to the controller, and the third remaining in the department. The written approval both of the merchandise manager and the controller was necessary. When this was secured, the actual mark-down was made in the department by clerks, who crossed out the old price and put down the new price underneath it in indelible pencil. Responsibility for the physical mark-down rested upon the floor superintendent, who was subject to orders only from the superintendent of the building.

Salaries of floor superintendents ranged from $35 to $50 a week. The buyers in Hoosac & Mills enjoyed unusually wide powers. Their salaries were distinctly above the average. Many of them owned stock in the company.

As a result of his investigation, the controller recommended a special mark-down room separately partitioned, under a foreman taking his orders from the superintendent of the building.

Question

Should the controller's suggestion have been adopted?

Stock 12

Lee J. Brock—Figuring Profits and Mark-Up on Perishable Commodities

Mr. Lee J. Brock is the proprietor of a grocery store in a Pacific Coast city of about 10,000. Mr. Brock opened his store seven years ago, with fixtures and stock valued at $3,750.

During these years business has gradually grown, until now sales run from $3,500 to $4,200 a month. Mr. Brock and his

wife spend most of their time in the store. They are assisted by two salespeople working full time, and one driver. This driver is responsible for the delivery of merchandise, for the care of the one Ford truck which the store uses, and for unpacking incoming stock. The value of the stock at present is estimated to be between $6,000 and $7,000. Fixtures and equipment, including delivery truck, electric lighting equipment, and refrigerator, are appraised at $3,300. Mr. Brock places his accounts receivable at about $4,200. No attempt at departmentization is made in recording either sales or expenses.

In addition to staple and fancy groceries the store carries fruits and fresh meat. Mr. Brock is much troubled by the losses due to spoiled fruit and to shrinkage in some vegetables and meats. He has stated his difficulties as follows:

> Suppose I sell one dozen bananas at 25 cents. I do not know the exact cost. Part of the bunch decays and must be thrown away. How can I tell the exact loss or gain? Again, Mrs. Smith buys a dozen eggs for 40 cents. My profit is 7 cents. In a few days she comes back, telling me that two eggs are bad and I must make them good. How about this? Another case is that of asparagus. It costs 8 cents a bunch and sells for 12½ cents. Shrinkage is an important item, and so is spoilage. How do I determine the amount of loss, and how do I mark up my merchandise to cover this loss? In the meat department I find that hams shrink from 1 to 1½ pounds each week. Some brands seem to shrink more than others. At present I have no way of determining my losses from this cause. How should I handle this item?

Question

How can Mr. Brock's problems, as stated above, be solved?

Stock 13

Poole's Drug Store—System of Pricing Merchandise

The sales volume of Poole's Drug Store in a middle western city of 85,000 was about $330,000 for 1921. This store operates eight branches, whose average sales for the same year were $53,140. Four of the branch stores are within the city; four are in neighboring towns.

The central warehouse is operated in connection with the main store. All shipments received at the warehouse are accompanied by a duplicate invoice which is specifically requested of the vendor. After a shipment is received and noted on the receiving book, the same notation is made on the duplicate invoice, which is then sent to the office. No bills are paid until the duplicate invoice has been received by the office. When an order is placed, a duplicate goes to the receiving room to serve as a tickler.

Deliveries are made daily from the warehouse to the branch stores. When a delivery is received at a branch store, the retail price is marked both on the merchandise and in a special book by means of four master price books. Whenever there are price changes, the central office sends a list of these changes to the branch store managers, whose duty it is to make necessary corrections on the merchandise and in the books. The assistant manager of the Company is responsible for pricing.

Questions

1. Recently the management has been scrutinizing the system of marking merchandise.
2. Should any changes be suggested?

Stock 14

The Palace—Mark-Down Control

The Palace Department Store in a recent campaign to lessen stock shortages devised a new system of checking and controlling mark-downs. After the system had been in operation for about a year it was described as follows to the reporter for a trade paper:

In our store when a buyer wants to take a mark-down, he goes to the merchandise office with a rough book of his own in which he has entered a list of the goods to be marked down. He shows this list to the merchandise manager, giving his reasons for wanting to take the mark-downs, and if the merchandise manager assents, he fills out an authorization in the following form:

MARK-DOWN AUTHORIZATION

Date. . . . .

Dept. . . . .

Estimated Amount. . . . .

Reason. . . . .

This permit must be used on date of issue; otherwise it is void.
Estimates should be as nearly correct as possible.
Mark-down books should be returned to office on day they are given out.

The mark-up authorization is in the same form, but is printed in red. As indicated on the face of the form, the authorization must be used on the date of issue. When he has secured this authorization from the manager's office, the buyer goes to the clerk in the merchandise office who has charge of the mark-down book. He presents his authorization to this clerk, who spindles the authorization and gives him the mark-down book. The buyer may make his entry in the mark-down book there in the merchandise office, or he may take the book to his department, but he must present the mark-down book to the floor man for his signature before the mark-down book is returned to the clerk in the merchandise office who has charge of it. The floor man's signature in the mark-down book indicates that he has received from the buyer the old price tickets for the merchandise indicated in the mark-down book and that he has issued to the buyer new price tickets to be placed upon the merchandise. The floor man gets these new price tickets by presenting the old tickets at the office of a clerk in charge of all price tickets and by signing at that office a slip ordering the new tickets to be printed. The floor man's signature in the book makes him responsible for seeing that the same number of price tickets have been surrendered by the buyer and given to the buyer, and that the new price tickets are properly printed. The buyer must always return the mark-down book, bearing the floor man's signature, to the

proper clerk in the merchandise office before the close of the day on which he received it.

When the mark-down book is returned to the clerk who has charge of it she stamps the authorization with a canceled stamp and inserts it in the mark-down book at the page where the actual mark-down has been entered. All the mark-down books with the actual mark-downs indicated by these authorization slips are placed on the merchandise manager's desk each morning for review.

The pages in the mark-down book are printed in the following form:

MARK DOWN BOOK No. A 3699

Dept. ______ Date ______

Quantity	Article	Reason	Cost	Present Retail	Retail to	Difference	Extension

Buyer's Signature ______ SPECIAL

Floor ______ REASONS

FORM No. 57. The Palace Department Store—Sample Page of Mark-Down Book

These pages are numbered serially, two sheets being printed under each serial number. All entries are made in duplicate. The original is detached and sent to the statistical department, and the tissue remains in the book. In the statistical department the original forms the basis of an entry on a work sheet on which are accumulated for each department the mark-downs of the month. These mark-downs are carried from the work sheet to the monthly departmental report and to the merchandise ledger. In the merchandise ledger the mark-downs are taken into consideration in computing the book inventory at retail.

As a result of this first year's experience with the new mark-down system, the store believes that it has no more stock shortages due to leaks and imperfections in the system. Very few of the shortages can be traced directly to mark-downs, and the man in charge of the statistical department believes that these occur only when mark-downs are not properly authorized. Of course, there is trouble occasionally due to errors in counting

merchandise, but these errors are rare because of the check which is secured by the control of price tickets. Again, errors sometimes occur in taking mark-downs because of mistakes in the merchandise office when the O. K. is given. For instance, a lot of goods may be brought into the store and marked 75 cents. A few days later the buyer decides that they should be marked down to 50 cents, and he secures an authorization for this mark-down. Very shortly after the goods have been marked down to 50 cents, the advertising department decides to put on a sale in which all goods are priced at one-half their original price. This means that this particular lot of goods must be marked 37½ cents. A new mark-down is put through reducing the goods from 75 cents to 37½ cents instead of from 50 cents to 37½ cents. Therefore, at the end of the period the physical inventory will show more stock than the book inventory. According to the statistician, errors of this kind are not due to faults in the system.

The statistician of the Palace declares that his mark-down system is "air tight."

Questions

1. Is the system "air tight"?
2. Should any changes be made in the system to guard against errors?
3. Could any changes be made to simplify the system without sacrificing accuracy or making shortages more likely?
   (*a*) Should they be made?
4. Should the signature of the merchandise manager, by whom the O. K. is given, appear upon the mark-down authorization?

D RESERVE STOCK

Stock 15

Bensema & Walters—Reserve Stock Problems

Bensema & Walters maintains one of the leading department stores in their city. In the two seasons ending July 31, 1920, the sales for the store's 47 departments totaled approximately $5,500,000. These 47 departments included wearing apparel for men, women, and children; domestics, dry goods, notions, and practically everything in home furnishings with the exception of furniture.

In the Bensema & Walters store there were three main reserve stockrooms, one on the fifth floor, one on the third floor, and one in the basement. In addition to these three main reserve stockrooms there were stockrooms adjacent to the departments in which the merchandise was of such a nature that it was difficult to keep a complete stock on the selling floor.

Mr. D. B. Walters, treasurer and controller of the store, at a department store convention in 1918 stated that there were nine physical reasons for stock shortages in the stockroom. These nine reasons were:

1. Inadequate control of ingress and egress.
2. Lack of door and window control.
3. Inadequate storing facilities, mispacking and bunching, shelves and bins too deep and high with dark, inaccessible corners.
4. Loss of merchandise en route from marking room to storeroom on account of use of open trucks and messengers using passenger elevators.
5. Failure to check merchandise.
6. Wrong sorting, shelving, and binning.
7. Wrong issue to merchandise departments.
8. Negligent stockkeeping.
9. Insufficient help in stockroom.

Mr. Walters went on in his address to give the methods by which these physical weaknesses might be corrected and the stock shortages resulting from them lessened or eliminated. For stores doing a business of $5,500,000 a year and over, he said, one large reserve stockroom should be established, having individual telegraphic door and window control, with one man in complete charge,

and with perpetual stock inventories of merchandise in the room. These inventories preferably should be made in the ordinary units in which the merchandise was handled, but if that seemed too detailed, they should at least be kept in bulk.

With a stockroom run upon this basis merchandise would be charged in from the receiving and marking room and charged out to the buyers, the head of the reserve stockroom being held responsible for all merchandise received and not charged out. Under this system no person except the regular employees of the reserve stockroom would be allowed in that room, and this prohibition would extend even to heads of stock and buyers. In order to control merchandise properly before it reached the reserve stockroom, Mr. Walters said that there should be a room for receiving and opening the incoming packages and a separate room for marking the merchandise. In the first room the merchandise would be received, opened, inspected, and listed on special forms. Later these forms would be checked against the invoices in the office, thus providing a blind check of the merchandise. Mr. Walters stated that as the merchandise was removed from the case it should be placed on tables provided with small wheels or rollers. These tables would be retained in the receiving room until the merchandise was inspected by the buyer or head of stock, who might enter the receiving room to inspect merchandise at 10:00 a. m., or at 4:00 p. m. No persons other than buyers or heads of stock, with the exception of employees of the receiving room, should be allowed in the receiving room, and buyers and heads of stock might enter the room only at the specified times.

The marking room, Mr. Walters went on to say, should be located adjacent to the receiving room, and separated from the receiving room by a partition with sliding doors so arranged that an opening might be made in the partition at any point. Through these openings the tables, loaded with merchandise, would be rolled from the receiving room into the marking room as soon as they were checked by the buyer or head of stock. In the marking room the merchandise would be marked according to the instructions of the buyer or head of stock. No one would be allowed in this room save employees of the room.

From the marking room merchandise would go to the reserve stockroom, and it should be sent only in enclosed trucks. These

trucks were to be closed and locked before leaving the marking room, were to be taken to the desired floor by special freight elevator, and then rolled to the reserve stockroom before being opened. Goods going from the reserve stockroom to forward stock were to be handled in similar trucks and in a similar manner. These enclosed trucks, according to Mr. Walters, were preferable to open ones, inasmuch as they protected the goods against theft, and prevented damage by goods falling to the floor. The special freight elevators were to be provided in order that customers might not be inconvenienced by the use of passenger elevators for trucking merchandise.

Mr. Walters stated that in each merchandise truck leaving the marking room, whether going to the reserve stockroom or direct to forward stock, should be a bill showing in detail the merchandise contained in that truck. The person to whom the goods were delivered, whether the buyer in the department, the head of the stock in the department, or the head of the reserve stockroom, was to be required to check the merchandise against this bill and to receipt for the merchandise received.

Having outlined the broader aspects of his idea in regard to the handling of reserve stock, Mr. Walters went on to describe how, in his opinion, the receiving room, marking room, and reserve stockrooms might be equipped to reduce shortages to a minimum and to prevent unnecessary fatigue to employees. In the first place, he said that, in a receiving room, tables with drawers and pigeonholes were a vicious institution and should never be tolerated. These were certain to be used for stowing away bits of merchandise and once the merchandise was thus stowed away, no one could find it. The tables which Mr. Walters recommended were to have one or two tops or shelves, but nothing in the way of drawers or pigeonholes.

In the marking room, for the proper protection of supplies, there must be provided suitable receptacles for pins, paper clips, pin tickets, and other small items well up above the main marking surface. If allowed to remain in open cups on the table top, they were sure to be tipped over and brushed to the floor, or lost in other ways. Similarly, the bottles for ink of various kinds should be carefully protected in order that merchandise might not be damaged. Although some receiving room heads believe that ink should never be used in

marking, because of the danger of open inkwells, Mr. Walters expressed the opinion that ink could never be entirely eliminated but that it should be carefully protected.

Errors in marking, he continued, were largely a result of fatigue. To guard against this fatigue, equipment should be carefully designed in order that tables would be the proper height from the floor, that footrests might be provided in comfortable positions, and that all workers might have stools.

Mr. Walters said that a great portion of the stock shortages was due to merchandise lost or damaged in the reserve stockroom, or to errors resulting from improper sorting or binning of merchandise in the reserve stockroom. Dark and inaccessible corners especially were to be guarded against, also shelves made of slats or in any other way which allowed merchandise to drop through to the shelf below. As an example of trouble arising from this cause, Mr. Walters spoke of one instance in his store, when ladies' $1.50 waists had been placed in boxes in a given space in the storeroom, and in the space immediately below were $3.50 waists. The boxes on both shelves were so similar that they could not be distinguished at a casual glance. In some way two cartons, containing a half-dozen waists each, dropped through from the $1.50 space to the $3.50 space. These cartons were taken out hurriedly by the stock boy and placed on sale at $3.50. A number of them were sold before the error was noted, thus endangering the good will of customers, and causing an overage in the inventory.

While on this same subject, Mr. Walters declared that he did not believe standard reserve stockroom equipment to be worth serious consideration, and that the equipment for storing merchandise, to be efficient, should be designed in accord with the type of the merchandise. For instance, both piece goods and gowns, dresses and waists might be stored well on open shelves, but these shelves must differ in construction to allow in one instance for bolts of cloth and in the other instance for cartons or boxes. For gloves and stockings the same thing would apply. In case merchandise such as waists was to be stored in drawers, careful provision should be made in order that the merchandise might not be damaged by rubbing against the top of the space in which the drawer is inserted, and to make this provision Mr. Walters suggested that drawers should be

constructed whose depth should be not more than three-quarters as great as the designated space.

In conclusion, Mr. Walters stated that these observations were more or less theoretical, in that he had put only a few of them into practice in his own store, as a lack of space and of money prevented him from changing the existing arrangement to something more nearly approaching the ideal one which he had outlined. Nevertheless, these suggestions had been based on practical observation during 15 years in the department store business and he believed them to be sound and practicable.

In the summer of 1921 it became clear to Mr. Bensema and Mr. Walters that their existing store building was hampering the growth of the business, and that it would be necessary for them to provide new quarters in the course of the next 18 months. Accordingly, they decided to construct a new building on a site which they had purchased some time previously, as soon as the price of building material and labor declined to a point which they considered reasonable.

Questions

1. Which of the suggestions made by Mr. Walters in his address should be incorporated by the store in the plans for its new building?

2. What steps should the store take to eliminate any physical sources of merchandise shortage mentioned by Mr. Walters in opening his address, but not covered subsequently?

Stock 16

J. R. Hansen Grocery Co.—Stockroom for Order Filling

The store of the J. R. Hansen Grocery Company, in one of the larger eastern cities, does a business of approximately $1,500,000 a year in groceries and delicatessen goods. The store does not carry fresh meats, fruits, or vegetables. Practically all of its goods are put up in packages, although to satisfy the needs of special customers packages may be broken. Over 90% of the goods sold in the store are delivered by the store's motor cars. Orders for this merchandise come in by telephone, by mail, and by personal calls at the store.

The store maintains two complete stocks. One, the forward stock, is more a sample room than a stock from which orders are filled. Customers visiting the store in person give their orders from samples on display in forward stock, and these orders are filled from the reserve stock. If, however, the customer wishes to take the merchandise with her, her order will usually be filled from forward stock. Mail orders and telephone orders come direct to the reserve stockroom.

If the customer gives her order in person, that order is taken by a salesperson in the part of the store given over to forward stock. The order is written on a regular store sales slip, which is forwarded to the reserve stockroom office. Mail orders are sent from the cashier's desk, where all mail is opened and remittances removed, to the office in the reserve stockroom, where sales slip writers copy the order from the customer's letter to a regular sales slip. Telephone orders are taken down by the telephone operator on a telephone order form which shows, in addition to the articles ordered, the customer's telephone number, the customer's name, street address, town, state, and the address to which the goods are to be delivered. It also provides space for the date, the time received, and the kind of order; that is, whether charge or C. O. D. After telephone orders have been entered on this form, they go to the office of the reserve stockroom, where sales slips are made out for the orders.

As soon as the sales slip for the order has been made out it goes to the index clerk in the reserve stockroom office. This clerk pastes a small slip of paper along the right-hand side of the sales slip and enters on this slip of paper opposite each item

entered in the sales slip the section letter and bin number where that item is located. On the sales slip proper, against each item, she enters the price and the extension. To help her in her work the index clerk has a large card index, one card being provided for each commodity carried in stock, showing the various brands and sizes of the commodity, the price per unit of each, and the section letter and bin number where the stock is located. For example, one card is as follows:

BAKED BEANS

			Price	Section
V. C.	No. 3 can	Pl.	.29	G63
V. C.	No. 3 can	Sauce	.29	G62
Real Boston	No. 1 can	Pl.	.19	G63
Real Boston	No. 1 can	Sauce	.12	G64
Snider's	No. 1 can	Sauce		G7½
Snider's	No. 2 can	Sauce		G20
Campbell's	No. 2 can	Sauce	.10	G50

Blanks in the price column indicate items out of stock.

After the index clerk has finished her entries, the sales slip goes to an entry clerk, who enters the transaction on one of two record sheets. The first of these sheets is for charge and cash orders and provides a line for entering each transaction and columns for the following data with regard to that transaction:

1. Serial number assigned to order
2. Dollars
3. Cents
4. Sales clerk receiving order
5. Sales check folio and check number
6. Number of pieces
7. Remarks
8. Number of baskets

All C. O. D. transactions are entered on a separate sheet which has a line for each transaction and similar columns. These sheets provide a control of the order from the time it is assigned to an order filler until it has passed out of the reserve stockroom to the delivery platform.

After the entries have been made on the entry sheet, the entry clerk assigns the orders to an order filler. For this work of assigning, each order filler has a box in which the entry clerk places his orders. The entry clerk usually enters five or six

orders at a time, and having entered these five or six orders, places them all in the box of some order filler whose box is empty. As the order fillers complete the orders on which they are working, they return to their boxes and take out the orders they find there.

In filling the orders, the fillers do not need to know what items the orders call for. All the information they require is the number of articles as shown on the sales slip and the space from which they are to take the items as shown on the white slip which the index clerk has attached to the sales slip. The entire reserve stockroom is laid out in aisles, each aisle being assigned a letter. Within each aisle there are 50 or more bins numbered consecutively, beginning at the top of the first column of bins at the east side of the room and running down that column; then from the top to the bottom of the second column, and so on down that side of the aisle, and across and back the other side of the aisle. Each order filler wears a sort of apron resembling the bag which sowers use in sowing grain. In this apron the filler places the packages as he takes them from the shelves, and after the order has been filled, he empties the apron into a basket.

There a checker checks the items which he has placed in the basket against the order slip, and, if they agree, passes both slip and merchandise to a packer and wrapper, indicating on the sales slip the number of the filler who delivered the merchandise to him and his own number. The wrapper and packer again checks the merchandise against the sales slip, prepares it for delivery, and passes it on to the delivery department. He enters his signature on the sales slip and returns it to the reserve stockroom office, after having detached the duplicate and packed it with the merchandise.

Separate checkers and packers are maintained for:

1. Small orders which can be done up in one parcel.

2. Orders which are going out in the store's delivery equipment, but which are too large to be made up into one parcel. These last orders are called "basket orders."

3. Larger orders and orders which must be packed for shipment by freight or express.

4. Orders which are to be shipped by parcel-post,

Also in the stockroom there are separate rooms for all groceries which are ready to eat and for all beverages. These rooms are kept locked and are in charge of a keeper who issues merchandise to the order fillers. Merchandise is placed in the bins by stock men who obtain it from another stockroom.

Questions

1. Should any change be made in the division of work in the reserve stockroom office or the reserve stockroom, in order to reduce paper work, dispense with employees, or expedite the handling of orders?
2. Assuming that the store has available a rectangular space 190 feet long and 50 feet wide on the main floor, and that it wishes to place the delivery platform at one end of this space, how should the reserve stockroom office, the bays for the checkers and packers, the bins from which the order fillers work, and the stock storage space be laid out?

Stock 17

Colonial Jewelry Company—Yearly Sales Peak

A study made in 1920 of a number of jewelry stores showed that the sales during the month of December usually constituted from 20% to 30% of the entire volume of sales for the year. This condition was apparently due to the large proportion of purchases in jewelry stores for gift purposes. This theory was supported by the fact that there was a minor sales peak in most stores during the month of June, when a large number of weddings take place.

The Colonial Jewelry Company, operating three retail jewelry stores in a large eastern city, has cooperated with other stores in various attempts to level out this yearly sales peak by trying to stimulate trade during other months. For instance, it has

tried to boom the sale of diamonds during January by emphasizing their investment value. It has tried to stimulate interest in gift giving at Easter time, and it has tried to boom the sale of novelties during the summer months. There have also been some attempts to urge people to purchase silver, cut glass, china, and other similar articles for their own use rather than for gift purposes. None of these plans seems to have been successful.

The Harvard Bureau of Business Research, in a bulletin published in 1920, showed that the common figure for stock-turn in 1919 in jewelry stores reporting to it was 1.1. The effect of this low rate of stock-turn upon interest expense was directly noticeable, the common figure for interest in 1919 among the jewelry stores reporting to the Bureau of Business Research being 4.6% of net sales.

The rate of stock-turn in the Colonial Jewelry Company's stores in 1919 was 1.4, slightly higher than the common figure shown by the Harvard Bureau of Business Research report, and the officials of the company do not feel that it is possible to secure a more rapid turnover of merchandise. Furthermore, they believe that since the jewelry business is largely a luxury trade, it will be difficult, if not impossible, ever to level out to any extent the high sales peak in December. They see no prospect of the bulk of the jewelry business being put on other than a gift basis.

In 1921 one of the members of the firm proposed a plan to cut down carrying charges by stocking smaller quantities of merchandise throughout the year and then building up the stocks just in time for the Christmas trade. He estimated that from 25% to 30% of the company's working capital might be freed during at least nine months of the year by such a plan.

Question

Should a plan of this sort have been adopted by the Colonial Jewelry Company?

E. STOCK RECORDS

Stock 18

The Mill Hill Book Store—Operating Without Stock Records

The Mill Hill Book Store is situated outside of the retail district of a large city in a fashionable suburb near a university. No popular literature is carried. A specialty is made of old books and first editions, which are picked up by the proprietor at private sales and from correspondents in England. It is also the policy of the store to provide customers with the very latest books of distinction. These are purchased direct from abroad and from publishers in this country.

The stock varies from 35,000 to 45,000 volumes, 40% of which are new books. The variation in the value of the books in stock is great, depending upon whether or not the Mill Hill Book Store happens to have on hand rare first editions or autographed books. Aside from such books, the value of the stock is normally between $12,000 and $18,000, figured at cost.

From the point of view of a bookseller, there is no definite wholesale market for books. The proprietor of the Mill Hill Book Store, if he decided to go out of business, could sell his entire stock at 95% of the cost, provided he had ample time to seek purchasers. If, however, he were forced to dispose of all his books in a short time, he would be obliged to take a loss probably between 20% and 50%. When shipments are received at the Mill Hill Book Store, the retail price is marked in the books, and the invoices are put into a file. Once a year inventory is taken. No stock records are kept.

The business is conducted by the proprietor, who does all the buying and likewise sells. He is assisted by a clerk, and by a girl who acts as stenographer and bookkeeper and also aids in selling in case of a rush.

Questions

1. Should stock records be kept?
   (*a*) If so, in what form?
2. Should a fixed percentage of the value of the stock be written off annually as depreciation?

Stock 19

Matthew Aborn Company—Small Store Without Stock Records

Mr. Matthew Aborn operates a men's furnishings store in a residential suburb. He personally does the large bulk of the selling. His only assistant is a tailor, to whom space is leased at the back of the store and in the cellar. The tailor waits on customers when Mr. Aborn is out to lunch. There is also a bookkeeper, whose services are paid for jointly by Mr. Aborn and by the tailor. She also sells in case of emergency. Her knowledge of the stock, however, is limited.

Mr. Aborn marks the retail price on all merchandise when it is received. He keeps the invoices on file. The only other records that are kept are daily sales, which are copied by the bookkeeper from the cash register into a cash register sales book. The bookkeeper likewise makes a notation of all sales on credit, which, as a rule, amount to 30% of the total business transacted in the store.

Inventory is taken on the first of every year. On January 1, 1919, the cost value of the stock was $4,058. On January 1, 1921, it was $4,922. Early in July, 1921, a new elevated station was opened to the public within 100 yards of Mr. Aborn's store. As a result sales increased to such an extent that other merchants became interested in Mr. Aborn's location, and his rent was raised. Mr. Aborn, however, decided to stay, being convinced that there was a chance of doubling and perhaps trebling his business.

Questions

1. In the event that the store grows in accordance with Mr. Aborn's hopes, at what point in its development should a system of stock records be installed?
2. What form should this system take?

Stock 20

The Mannheim Pharmacy—Stock Records in a Unit Drug Store

The Mannheim Pharmacy, located in one of the upstate New York cities, in the years preceding 1920 was doing an annual business of approximately $37,870. It employed six people, who gave the whole or a part of their time to selling, and it served approximately 1,200 customers each day. About 85% of the store's sales were for cash. The store occupied the first floor of a building on a corner, three blocks from the main retail center of the city. The floor space was 26 feet wide and 100 feet deep; about half of it was given over to the forward selling floor and the rest used for the prescription department and storage.

In the Mannheim store there had been in use for three or four years a system of stock records which gave a running inventory of the stock on hand in all commodities. These stock records were kept in a bound volume. Each page bore at the top the name of the commodity and the unit in which that commodity was usually sold. The page was ruled in columns, one for purchases, one, much wider, for sales, and one at the right for balance on hand. In the "Purchase" column were entered the date and quantity purchased each time merchandise was received. Each time a sale was made the amount of merchandise sold was entered in the "Sales" column. In the column at the right for "Balance" was entered the balance on hand, whenever it was computed.

The store had one cash register, which was used by all salespeople. It had separate keys for each salesperson, but only one cash drawer. No sales slips were used for cash sales. The stock-record book was kept on a small shelf beneath the cash register, and each salesperson, as he rung up a sale, entered in the book at the proper page the amount sold.

In 1920 the owner of the store, who was in active charge of the store daily, came to the conclusion that his business was paying too many salespeople and, in analyzing his problem, he concluded that the stock-record system required so much time that more salespeople were necessary. He therefore reasoned that if he eliminated the stock-record system, he could cut down his sales force. Accordingly, the stock-record system was dis-

continued and nothing substituted in its place. He also undertook to cut his sales force to the smallest possible number and succeeded in reducing the number of people giving all or part time to selling from six to four. This was accomplished without any noticeable change in the volume of sales or in the quality of service given.

Questions

1. Was the proprietor justified in believing that the stock-record system was responsible for all the difference in expense before and after making the change?
2. Should the stock-record system have been retained either in its original or in an altered form?

Stock 21

Herman J. Passmore—Stock Records in Unit Hardware Store

Herman J. Passmore has a hardware store in a small town in Oregon. In 1920 his net sales were $60,796. This sum was distributed among the various lines of merchandise approximately as follows:

1. Builders' hardware	$ 3,500
2. Wire and heavy hardware	6,000
3. Cutlery	3,500
4. Carpenters' tools	1,500
5. Other tools	2,000
6. Garden implements	1,500
7. Paint and oil	4,500
8. Sporting goods	3,000
9. Stoves	6,000
10. Household supplies	5,000
11. Agricultural implements	12,500
12. Miscellaneous	11,500

Mr. Passmore usually buys about 60% of his supplies from four wholesalers: Thirty-five per cent direct from manufacturers and the remaining 5% from a cooperative buying association.

In 1920 Mr. Passmore had three regular employees. Two of these gave all their time to selling, and the third divided his time between selling and clerical work. Mr. Passmore himself was in active charge of the business, devoting about one-half his time to selling and the other half to buying and managing.

Mr. Passmore, in looking over his figures at the close of the year 1920 and in studying his stocks on hand at the close of the same year, came to the conclusion that it would be well if he could keep a running inventory, or records which would take the place of a running inventory. He wrote to a hardware journal for advice and suggestions and was referred by the journal to Bulletin No. 13 of the Bureau of Business Research at Harvard University. The hardware paper said that this bulletin, entitled *Management Problems in Retail Grocery Stores*, explained the use of a set of purchase records for grocery stores which, although they did not constitute a running inventory, provided a substitute which might be better adapted to the needs of his store than a continuous inventory, involving much more work.

Mr. Passmore secured a copy of *Bulletin No. 13* from the Bureau of Business Research and found the following passage in regard to purchase records:

> Few retail grocers kept any sort of a continuous inventory of their stock on hand. This would require entries from sales slips, and the number of brands carried in the average retail store is so great, and the average amount of each sale so small, that much extra work would be involved in keeping a continuous inventory. The few stores that have installed such a system have apparently found it worth while. Under present conditions prevailing in the retail grocery trade, however, it does not seem probable that the use of stock records will soon become general.
>
> As a substitute for a continuous inventory of stock on hand, a purchase record is being used by a number of stores. This also gives desirable information to assist in buying. A suggested form (enlarged in size) for these purchase records is shown on the opposite page. The form can readily be varied, of course, to meet the special problems of each individual store.

For these records, cards 3x5 inches in size are used. One card is made out for each brand of merchandise carried. At the top the date of the first actual inventory is entered, and the quantity on hand when the inventory was taken. In order to facilitate comparisons, the quantity on hand at the next inventory date is also entered.

On the body of the card, in the first column, the date is entered when each order is placed. In the next column, the date is entered when the shipment is received. The third column is for the name of the firm from which the goods are purchased. The following five columns are for packages or units of different sizes. If a certain brand of cocoa were purchased in two sizes, for example, one-pound and half-pound, two of the columns would be used. At the head of the first column, under "Size," would be written "1 lb." At the head of the second column, under "Size," would be written "½ lb." When an order was given for 12 one-pound packages, the number "12" would be entered in the column headed "Size 1 lb." The total cost of the 12 one-pound packages would be entered in the column headed "Total Cost." If 24 half-pound packages of the same brand cocoa were ordered, "24" would be entered on the second line in the column headed "Size ½ lb." The total cost of the 24 half-pound packages would be entered similarly under "Total Cost." In the column headed, "Cost per Package," the cost for each unit is entered. If the total cost of the 12 one-pound packages were \$3.60, this would be divided by 12 and \$0.30 entered in the "Cost per Package" column. If the total cost of the 24 half-pound packages were \$5.20, \$0.21⅔ would be entered in the "Cost per Package" column on that line.

The selling price for each size of package is entered in the column headed "Selling Price." The gross profit in percentage of selling price is entered in the last column. At the bottom of the card an entry is made of the total quantity of each size purchased during the period covered by the card. If one card were used for six months, for example, the total at the bottom would show the total quantity purchased during the six months. The total cost of all purchases of this brand is likewise entered. An entry may also be made at the bottom for the average length of time between purchases for each size of package, to be determined from the entries of order dates.

When such records are used, it is easy for the proprietor to guard against over-buying. This record will show when the merchandise has been bought, and in what quantity. When it is necessary to re-order, he can readily determine the length of time it has taken him to dispose of the quantity bought on the last order. From this he can judge whether or not the size of his order should be cut down. If it were a slow-mover, then he would ordinarily reduce substantially the quantity to be purchased on a new order.

By comparing these records with the stock on hand at as frequent intervals as possible, the grocer can detect slow-movers before the time comes for re-ordering. This helps him to keep his stock fresh and clean,

and to avoid the expense and loss that comes through the accumulation of slow-selling goods. Records of this sort are being used with success and with comparatively little extra labor by several grocers.

BRAND			INVENTORY: DATE					QUANTITY			
			DATE					QUANTITY			
Date Ordered	Date Received	Bought from	Number of Packages					Total Cost	Cost per Package	Selling Price	Gross Profit %
			Size	Size	Size	Size	Size				
Total Quantity Purchased											
Average Time Between Purchases											

FORM No. 58. Harvard Bureau of Business Research—Purchase Record Form

Question

Should Mr. Passmore adopt this method of recording purchases, either with or without modifications, for use in his hardware store?

Stock 22

The Ovington Shoe Store—Harvard Stock Records for Shoe Retailers

The Ovington Shoe Store has a growing business in the loop district of Chicago. In 1920, its sales were $109,490.80. This total was made up as follows:

Men's shoes and rubbers	56%
Women's shoes and rubbers	31%
Children's shoes and rubbers	9%
Findings	3%
Hosiery	1%

Mr. Harry B. Ovington, the proprietor of the store, is in active charge of the management and spends perhaps 90% of his time in the store. In buying both men's and women's shoes he secures about 90% of his supplies direct from manufacturers, only 10% being purchased from wholesalers. In children's shoes 60% are bought from wholesalers and only 40% direct from manufacturers. Rubbers and findings are bought exclusively from wholesalers, and hosiery is purchased 75% from manufacturers and 25% from wholesalers.

The goods are of medium and high-medium grade, and about one-half bear manufacturers' brands. The other half have no brand, but are stamped with the Ovington Shoe Store device. This device Mr. Ovington is developing and hopes soon to have it placed on all his shoes.

The store does some advertising. All the copy is prepared by Mr. Ovington himself and sent by him directly to the press. Seventy-five per cent of the store's publicity expenditure goes for billboard advertising; the other 25% is divided among newspapers, novelties, and circular letters, in the ratio of 2/5, 2/5, and 1/5 respectively.

The store carries an average inventory of between $65,000 and $75,000. Its stock-turn in both 1919 and 1920 was 1.2 times. With the beginning of the calendar year 1921, Mr. Ovington installed the Harvard System of Stockkeeping for Shoe Retailers, as described in *Bulletin No. 7* of the Bureau of Business Research, Harvard University. This system is described in detail in the bulletin mentioned. It is based upon three fundamental forms: the Sales Summary Sheet, the Size-Up Sheet, and the Consolidation Sheet. This last sheet contains three subdivisions: an order record, a record of receipts, and a stock record.

The Sales Summary Sheet is a form for recording sales and returns of shoes by weeks and by stock numbers. In the form, columns are provided for stock numbers and for weeks. Lines are provided for the different stock numbers. Each of the columns, which represent a week's transactions in a given stock number, is divided into four sub-columns: for sales tally, sales total, returns tally, and returns total. In the spaces for sales and returns tally, is entered a vertical line for each transaction as that transaction occurs. After four vertical lines have been recorded, the fifth transaction is indicated by a diagonal line

drawn through the other four. For example, when a shoe of stock No. 2731 is sold, the salesperson enters in the column provided for sales tally and on the line with stock No. 2731, a vertical mark, subsequent marks being recorded vertically or diagonally as the week progresses. At the end of the week the tally marks are totaled and the figure entered in Arabic characters in the space provided for sales total. Returns are recorded in the same way. This sales summary sheet thus gives a record showing what stock numbers are selling and what stock numbers are not selling.

The Size-Up Sheet is a form for recording the stock on hand, the stock on order, and the stock due at a given date. In general conception the size-up sheet resembles the ordinary shoe size-up sheet familiar to the trade. Columns are provided for the different sizes, headings being numbers, as 5, 5½, 6, 6½, and the like; rows or lines are provided for the different widths, such as AA, A, B, C, D, E, and EE. In the ordinary size-up sheet the space for 6-D, for example, is a small square; in the Harvard size-up sheet the corresponding space is a square divided into three parts by a horizontal line cutting the square into an upper and lower half, and a vertical line bisecting the lower half. In the upper half of the space is recorded the number of pairs of the given size and width on hand. In the lower left-hand corner is recorded the number of pairs on order, and in the lower right-hand corner the number of pairs due. (This latter item will be explained later in the discussion of the Consolidation Sheet.) The size-up sheet is intended to bring together in convenient form the facts about a single stock number. In this system, as soon as a size-up is taken, the size-up sheet is attached with paper clips to the consolidation sheet having the same stock number. There the size-up sheet remains until the next size-up on that particular stock number is taken, when it is removed and destroyed, or filed, and the new size-up sheet substituted for it.

The Consolidation Sheet is made out for each stock number and furnishes a record of the transactions in that stock number of one year. At the top of the sheet are spaces for stock number, year, description, and make. The upper two-thirds of the sheet is used for the order record, which is made out in the same general form as the size-up sheet; that is, major column divisions for sizes and major row divisions for widths, but with the space for

each size or each width divided into 20 squares of equal size, rather than into three divisions as in the size-up sheet. These 20 divisions are arranged in five rows, four divisions to a row, a heavy rule separating the upper four rows, that is, the upper 16 spaces, from the lowest row. In recording orders corresponding spaces are used for the sections for the various sizes and widths for recording the make-up of each order. Since there are 16 spaces for recording orders in each of the sections, the sheet provides for records of 16 orders. Orders are numbered beginning with No. 1 at the opening of the year and run up consecutively through the year. Order No. 1 is recorded in the first space at the left of the uppermost row in each section, the second order in the next space to the right, and so on. Thus, in the section provided for each size and width, the first uppermost row of small spaces is used for recording orders numbered 1, 2, 3, and 4; the next row for orders numbered 5, 6, 7, and 8, etc. If in the case of a given order no shoes of a given size and width are ordered, an "X" is entered in the space under that size and width, for the order number. When shoes are ordered, the number ordered is entered in the corresponding space. In the bottom row, which it will be recalled is separated from the upper four rows by a heavier rule, is entered the stock on hand at the beginning of the year, the total purchased during the year, the stock on hand at the end of the year, and the sales, the figures being entered in the four spaces from left to right in the order named.

The lower one-third of the consolidation sheet is divided into two sections, one for a Record of Receipts, and the other for a Stock Record. The Record of Receipts has five major columns, with the following headings: "Order Number," "Date of Order," "Number of Pairs," "Delivery Date," and "Receipts." Neither of the first four columns is subdivided. Under the column headed "Receipts," there are five sub-columns used to record the receipts and the number of pairs still to be delivered on orders which are shipped in sections. Of these five columns the first is used for the words, "Date," "Pairs Received," and "Pairs Due." These words thus become stub items in a small total under the heading "Receipts." In the remaining four columns are entered the date of receipt, the number of pairs received, and the pairs still due, for each section of the order, no provision being made for any order shipped in more than four sections.

The item, "Pairs Due," referred to in the discussion of the Size-Up Sheet, is the same as this item "Pairs Due" mentioned here.

At the lower right-hand corner of the consolidation sheet is the stock record. This record has 12 columns, one for each month of the year. Vertically it is divided into three major sections, the first for stock on hand, the second for reaching a total of pairs handled, and the third for reaching a total of sales. In the "On Hand" row is entered the number of pairs on hand at the beginning of each month. Below that come five rows for entering weekly receipts in pairs. The next row is for the total receipts for the month, and the final row is a double row in which are totaled the pairs on hand at the beginning of the month, the pairs received, and the pairs returned. Below this total are five rows given over to records of the weekly sales in pairs. These are added to get the total sales for the month. The bottom row of the section is for total sales to date, the entries being cumulated from the row above.

Mr. Ovington, for a number of years, has been considering expanding his business into a chain, hoping eventually to have 20 or 30 stores, supplied from a central warehouse. He plans to open at once three small branch stores, each branch to handle a business of from $50,000 to $60,000 a year. These stores will all be in Chicago, within easy trucking distance of the main store, and Mr. Ovington will be able to keep in active touch with the operations in each of the stores by telephone from his office at the main store. Shipments of merchandise from manufacturers and wholesalers will be made to both the main store and the branches. A central warehouse forms no part of Mr. Ovington's scheme at this stage. Whether shipments will be made to the main store or to the branch stores will depend upon the condition of the stockroom at the various stores, and upon the sales of the stock number in question at the various stores. Stock will be transferred from store to store as needed.

Question

If the stock records of the main store and the branches are to be uniform, should Mr. Ovington retain his present system of stock records after opening the first three branches?

General Reference—See Appendix, Forms 93, 94 and 95, page 1005 and Inserts IX and X, or Bureau of Research Bulletin No. 7, *System of Stock-Keeping for Shoe Retailers.*

Stock 23

The Olmstead Department Store—Stock Records

Under the old system of handling stock in the Olmstead Department Store the buyer for the women's suit department kept merely a record of the amount of goods on order. Before making a buying trip he would look over the merchandise he had on hand, look up the amount which was on order, and gage his purchases accordingly. It was found that by this system a buyer sometimes bought too many models of certain sizes, with the result that his stocks were frequently larger than they should have been and at the same time he was not in a position to satisfy all the demands of his customers.

To remedy this situation the present stock record system has been installed. In this system each piece of merchandise is marked with a tag having a duplicate coupon. Both the tag and the coupon give the style number of the garment, its size, its

STOCK CARD

MFR'S Address____________________

Mfr's Number__________ Article______________ Date__________

STYLE	COST		RETAIL PRICE		36	37	38	39	40	41	42	43	44		REMARKS
					14	16	18	34	36	38	40	42	44	46	

FORM No. 59. The Olmstead Department Store—Perpetual Inventory Form

cost, and the selling price. When a garment is sold, the coupon is detached and given to the department clerk, who keeps a perpetual inventory on Form 59, shown on page 642.

Each of these stock cards shows the manufacturer's name, the article purchased, and the season of the year at the top of the card. The style number, cost price, and retail price are listed in the proper columns; each size is given a separate column. When a garment is ordered, a single mark is placed in the column denoting the size, on a line with the style number, and the date ordered is noted in the column for remarks. When a garment is received, a line is drawn across the previous one, making an X, and the date received is entered under the date ordered. Whenever a coupon is received, showing that a certain garment has been sold, the date is written across the X with a red pencil. In case a garment is returned, the selling date is erased and the garment again placed in stock. From this form it is possible to tell the amount of goods on order, the amount of goods on hand, and the rapidity with which certain sizes and styles are being sold.

The Olmstead store is making an attempt to cut down expenses by reducing the number of clerical workers as much as possible. It has been proposed, therefore, that this method of keeping stock records be abandoned and a filing system established in its place. Under this system each tag would carry two coupons. As soon as the goods were placed in stock, the lower coupon would be torn off and filed under its proper size number. As soon as the merchandise was sold, the second coupon would be torn off and given to a clerk who would remove the first coupon from the file of stock on hand and place it in the file of goods sold. By this means a buyer could readily determine the amount of merchandise on hand in any one style or size and the rapidity with which this merchandise was being sold, since each coupon detached when a garment left the store would be stamped with the selling date on the tag. Since each buyer keeps a list of the goods on order in his personal note-book and crosses these orders off as the merchandise arrives in the house, it is thought that the existing stock system might be done away with.

Question

What stock record plan should be used by the Olmstead Department Store?

Stock 24

Ashburton & Bienville, Inc.—Model Stock Plan

The firm of Ashburton & Bienville, Inc., operates a department store in Chicago which does an annual business of approximately $25,000,000. The store has 150 departments and the merchandise carried includes ready-to-wear clothing and furnishings for men, women, and children, dry goods, notions, crockery, glassware, kitchenware, home furnishings, pictures, leather goods jewelry, clocks, and baggage. The store makes a specialty of ready-to-wear clothing and furnishings for men, women, and children and for the past three years has been making a special effort to secure the custom of young women. It is the aim of the merchandising and style departments to make a strong style appeal in the moderate-price lines.

In order to control the merchandising in all departments the store established, about five years ago, what is called "Model Stock Plans." These Model Stock Plans involved the planning for each department for a season in advance the stock which that department should carry, the sales, and the amount which would be on hand at the end of the season. The planned figures for the department were later divided into what the store called stock divisions. For example, in the suit department stock divisions might be cloth suits, jersey suits, and riding habits. Under each stock division, furthermore, the merchandise department determined at what prices goods of that division should be carried and at what prices the full-line stocks should be carried. It was the store's custom in all departments to carry a full line of colors, sizes, and styles at each of three prices—the lowest price full line, the best-selling full line, and the highest price full line. In addition one item in each stock division was always marked at a figure to make it the best value in Chicago. This item was called in each stock division the B. V. C.

For recording the model stock plan for each department Form 60* on page 645 was used.

In this form the column headed "Numbers" is for recording the style numbers of the articles. The column headed "House"

*The figures cited in this and following forms are not quoted from actual stock records in the Ashburton & Bienville store, nor has any attempt been made to make them figures which might be used in a store of this size and type. They are merely inserted to illustrate the method.

MODEL STOCK PLAN

Suits (89) Department — O. K. W.J.B.

Month of October 19 21 — O. K. F.W.K. — O. K. O.T.B.

STOCK DIVISION	LINE PRICE	FULL LINES	B.V.C.	NUMBERS	DESCRIPTION	HOUSE	QUANTITY	COST	COST EXT	RETAIL EXT
Cloth Suits	25.00		B.V.C.	8730	Tweed - 2 piece	Blum				
	35.00	L		267	etc.	etc.				
	45.00	B		901	"	"				
	55.00	H		974	"	"				
	65.00			1263	"	"				

FORM No. 60. Ashburton & Bienville, Inc.—Old Model Stock Plan

is for the name of the resource, and the column headed "Quantity" is for recording the quantity planned to purchase. At the time when this model stock plan was originally developed it was possible to predict from whom the store would purchase a given article. Later, conditions so changed that the store was forced to buy wherever it could get the merchandise, and hence this column fell into disuse.

From the sample model stock plan, shown above as Form 60, it is evident that the planning was not detailed, and in practice the store found that it involved writing down an ideal which was never attained; hence it did not definitely tie up with actual sales. Accordingly, about a year ago, Ashburton & Bienville decided to change to what seemed to be a more practical model stock plan. The idea of having three full lines was considered fundamental in the store's policy and was retained, not only in order to emphasize the prices at which sales were made most readily, but also to keep the stocks within the price range at which business could be transacted most economically. In

extending the price range above the highest price full line and below the lowest price full line, great care was exercised by the merchandise office. Also, it was decided to retain the "best value in Chicago" feature. Furthermore, when the store became engaged in the actual work of devising new plans and of adapting them to store needs, it seemed that little improvement could be made over the old method for departments such as corsets, hosiery, and gloves, where purchasing was done by the season

Buyer O.T.B.
O.K.Div.Mgr. F.W.K.
Approved W.J.B.

MODEL STOCK PLAN

Dept. 89 Date 10 Sept.

for (period) October 1921

SUMMARY

INSTRUCTIONS:

1. Model Stock plans must be submitted in duplicate to the merchandise office before placing orders for the period covered by such plans.

   A "MODEL STOCK ANALYSIS" by stock divisions and prices must accompany this summary.

Enter the following figures from Six Months Plan

Planned stock end of period	$ 50,000
Planned sales	50,000
Planned markdowns	2,500
Markup (six months plan)	33%
Markup (to take care of charges to cost of mdse.)	2%
Total markup required	35%

If conditions arising since making out Six Months Plans will, in your judgment, make it advisable to change any of the above planned figures, indicate beside plans the new figures recommended and take up with the merchandise office at once.

SUMMARY BY STOCK DIVISIONS

of total stock to be on hand at end of period

STOCK CLASSIFICATION	TOTAL RETAIL
Cloth Suits	$25,000
Jersey Suits	10,000
Riding Habits	5,000
Other	5,000
LEEWAY	5,000
TOTAL	$ 50,000

FORM No. 61. Ashburton & Bienville, Inc.—New Model Stock Plan

and where month-to-month plans were not usually made. It was decided, therefore, to retain the old plan in all staple departments.

As finally developed, the new plan involved the use of three forms, called respectively the model stock plan, model stock analysis, and open-to-buy analysis. The first of these forms with sample figures is shown on page 646.

On this form are recorded for each month the figures indicated, which are taken from the six-months' plan. The six-months' plan is the estimate of sales, stocks, purchases, mark-up percentage, and mark-downs made for each department for a season in advance. It is drawn up on the basis of the records for the corresponding seasons of previous years and is prepared about the middle of the second month before the beginning of each season. The "summary by stock divisions" corresponds to the classification into stock divisions which was made in the first column of the old plan. This is the first step in breaking up the estimates for the department into smaller units which can be more easily controlled. The item marked "leeway" is provided to take care of purchases of job lots or other special purchases which are made from time to time during the season and which cannot be predicted. Such purchases are an outgrowth of the fact that in the firm's business it is necessary to cater to two types of customer. The first type is the more conservative purchaser who likes to find a store which carries merchandise of dependable quality at fair prices and then to make purchases year after year in the same store without shopping around. The sales, purchases, and stocks of such merchandise can be planned easily, and, especially in the staple departments, these comprise the greater portion of the store's business. The second type of customer is the bargain hunter who shops around before purchasing and buys on price and value as represented in the garment purchased rather than on average price and value over a period. It is the purchases of this second type of customer which cannot be estimated and for which the item of "leeway" is provided.

The second of the new model stock plan forms is called the model stock analysis and provides space for dividing each of the stock divisions in a department into price, as was done in the old stock plan, Form 60. The change from the old plan

comes in the further analysis which is made of past sales statistics by pieces and in the application of this analysis in planning the sales and stock at the end of the period. This form follows:

MODEL STOCK ANALYSIS Dept. 89 Date 10 Sept.

Period October, 1921

Stk. Div	Prices	F. L. Prices	Last Mos. Sales		This Mos. Sales			Next Mos. Sales			Planned Stock End of Next Month		No. Styles	Sales Last Year Following Month
			Last Year	This Year	Last Year	Est. This Year		Last Year	Est. This Year					
			Pcs	Pcs.	Pcs	Pcs.	Total Retail	Pcs	Pcs.	Total Retail	Pcs	Total Retail		Pieces
Cloth Suits	25.00		25	50	5	15	375.00	75	150	3750.00	50	1250.00	10	65
	35.00	L												
	45.00	B												
	55.00	B	etc.											
	65.00													
Jersey Suits	etc.													
TOTAL														
AVERAGE														

FORM No. 62. Ashburton & Bienville, Inc.—Model Stock Analysis Form

In this form the column "Sales Last Year Following Month" has been introduced because it has a particular bearing on the stock which should be on hand at the end of the month for which plans are being made. In the store it is customary to make out this model stock analysis on the 10th of the month preceding that for which the plan is being made. For instance, in the case of the sample above, the plans were for October and they were made out September 10th. The column headed "Last Month's Sales," however, applies to the sales in August, and the column headed "This Month's Sales" are thus for the first 10 days of September. The column "Next Month's Sales" is for entering figures for October including the actual figures for last year and the estimated figures for this year. The "Planned Stock End of Next Month" column refers to the stock in pieces and in dollars which it is estimated will be on hand at the end of October.

The third and final form developed for and now being used in the new model stock system is the "Open-to-Buy Analysis." This form is used for analyzing the stock in a given stock division at a given price whenever the buyer or the merchandise man desires the information. The form is usually made out at the first of each month and before each trip to market. The

merchandise managers do not give authority to buy without the information shown on this sheet:

OPEN-TO-BUY ANALYSIS Dept. 89 Date 1 Oct.1921

Period ending October 31, 1921.

Stock Div and Price	Stock on Hand	Stock on Order	Total	Last yr. sales from today to end of period	This yr. est. sales—today to end of per'd	Stock end of period if no more purchases are made	Pl'n'd stock end of period (model st'k)	O. T. B.	Plan to buy now
	Pcs	Pcs.	Pcs	Pcs.	Pcs.	Pcs.	Pcs.	Pcs.	Pcs.
Cloth Suits (25.00)	60	40	100	75	150	-50	50	100	40

FORM No. 63. Ashburton & Bienville, Inc.—Open-to-Buy Analysis Form

The columns of this form are self-explanatory. It is thought that this method provides a natural and logical way of arriving at the "open-to-buy" and the use of this form is encouraged throughout the store. In the Ashburton & Bienville store, as in other stores, however, the buyers are somewhat impatient of forms and systems and are likely to prefer to jot down the figures on a rough sheet of paper rather than to use this "Open-to-Buy Analysis" form. The merchandise manager is more interested in having purchases and stocks planned on this basis and in this general method than he is in having the form used. Hence, if in applying for permission to buy, the buyer shows that he has taken into account all the factors which would be considered in a proper use of the form, and if the facts justify a purchase, the merchandise manager will probably O. K. his request.

Questions

1. Does the new form, as described above, furnish proper stock and open-to-buy analysis for departments in which purchases are made in periods of less than one season?

2. Was the store right in retaining the old model stock plan in the departments dealing in more staple lines?

3. Under what considerations should the store permit buyers to deviate from plans made on the model-stock-analysis form?

4. How far should the merchandise manager go in attempting to enforce the use of these three forms?

5. What changes in this system should be made in order to adapt it to the needs of a women's specialty shop in Chicago doing an annual business of $1,500,000 and maintaining a position of style leadership in high-grade garments?

Stock 25

The James F. Marsh Company—Combining Price Ticket and Sales Slip

The James F. Marsh Company, a department store with an annual business of about $4,500,000, in a medium-sized city of the Middle West, has 51 departments, including in its lines furniture, household goods, and glassware, as well as the customary stocks of men's, women's and children's ready-to-wear clothing, dry goods, domestics, small wares, and notions. The store has an especially good reputation in the vicinity for the values it gives in ready-to-wear garments and furnishings. Sales are made for cash, charge, and C. O. D.

In the store's merchandising policy the special sale plays an important part. These special sales include mark-downs on regular merchandise, but more often merchandise specially purchased. These sales are well patronized and business is usually done during them under pressure. Because of the frequency of these sales, and because of the general desire to make purchasing in the store as convenient as possible for the customer, the management desires to speed up the work of selling and to reduce store system to a minimum.

While this question was being discussed at the merchandise meeting, the store controller suggested that the sales slip and

price ticket be combined. The president, who happened to be present at the meeting, quickly asked the controller to expand his idea. The controller then went on to say that he thought there might be some way of producing a price ticket or tag in two parts, one to be permanently attached to the merchandise and to accompany the merchandise to the customer and the other to be detached at the time of sale and sent through the store-auditing office as a sales slip. He thought that there could be space for necessary data on both coupons of the ticket, and that enough of this data could be filled in by the marking room employees so that all the salesperson would have to do at the time of making the sale would be to enter her number and the date. In case the merchandise were to be sent, she would, of course, have to enter the customer's name. Similarly, if the merchandise were to be charged, the customer's name would have to be entered on the tag and proper authorization made.

Continuing, the controller stated that he thought the chief difficulties would be as follows: first, three or four different sizes of tags or tickets would be needed in view of the fact that the store carried such different-sized items as coats, notions, furniture, and neckties; in the second place he said it would be difficult to devise tags of only a few styles which would be suitable for the many different kinds of merchandise sold. Under the present regime, he pointed out, the tags or tickets used for hosiery, jewelry, glassware, and rugs were very different in size, material and general make-up. Finally, the controller said that he believed considerable confusion would be caused in the auditing office by the different sizes of slips.

The president recognized these difficulties, but he seemed to think a way might be found to overcome them, and he directed the controller to design a form which could be used on all the tags and tickets, and to list the different tags and tickets that would be needed.

Questions

1. For what information should the controller provide space in these forms?

    (*a*) How should these spaces be arranged?

2. What different kinds and sizes of tag and ticket should the controller advocate?

3. What are the advantages and disadvantages of the proposed scheme?

   (*a*) Should the store adopt it?

4. How would the new plan affect a system of stock records for this store?

Stock 26

Marteau's—Control Over Sizes and Colors

Marteau's is considered by many department store executives, throughout the country, to be one of the best organized and most smoothly functioning department stores in the United States. A few merchants consider it over-systematized, and point to the fact that there are more records, reports, statistics, and paper forms in Marteau's store than in any other store with which they are acquainted.

Each department keeps the following records: A file of the original purchasing orders; a file of the buyer's copy of orders not filled or only partially filled; and a file of the buyer's copies of filled orders.

Detailed reports are sent to each department daily showing such figures as the sales for the previous day, sales for the same date a year ago, sales to date for the month, sales to date for the same month of the preceding year, credits for the preceding day, stocks on hand, stocks on order, and comparisons of number of pieces sold. There are also weekly reports showing the amount that each buyer is open to buy, and the rate of departmental expenditures in relation to sales for such items as rent, advertising, and wages of sales force. These items are compared with the showings made in previous months and years.

In the Marteau store the clerks in each department are responsible for the perpetual inventory. There is a separate inventory sheet for every article carried in stock. Separate sheets, how-

ever, are made out for the different colors and sizes of any one style. A typical inventory sheet (Form 64), taken from the men's suit department, which illustrates the operation of the perpetual inventory system, follows:

#186 $65.00		SELLERS Wolf & Co.											Golf Suit (3 piece)												Tweed								
STYLE		RESOURCE											DESCRIPTION												MATERIAL								
Cost	Size	May	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
$46.50		Rcd					5						3			1			6						4							4	
		O.H.							3			2		4				3		7			1			4			2	1			3
		Sold						2			1		1					2			2	4			1			2	1			2	
		O. O.		9							4				7										5		10						
June		Recd	2		6					3																							
		O.H.		5		2			3		4		3																				
		Sold.			4			1		2		1																					
		O. O.											3																				
		Rcd																															
		O. H.																															
		Sold																															
		O. O.																															
		Rcd																															
		O. H.																															
		Sold																															
		O. O.																															
		Rcd																															
		O. H.																															
		Sold																															
		O. O.																															

FORM No. 64. Marteau's Typical Inventory Sheet

In the upper left-hand corner the number of the suit and the retail price is indicated. The top of the sheet likewise shows the name of the seller and a description of the article. Of the $65 suits referred to in the present instance, nine were on order on the 2nd of the month, five were received on the 5th, two were sold on the 6th. This left three on hand on the 7th. On the 9th four more were ordered and one was sold, leaving two on hand. On the 11th three were received and one sold, leaving four on hand. On the 14th one of the suits was returned to the seller, bringing the amount on hand down to three. Whenever anything is returned to the seller, the amount is shown in red ink in the receiving column. Whenever a customer returns a purchase and gets his money back, the credit is indicated in red ink under the "sold" column. In case of a mark-down, a line is drawn through the price at the upper left-hand corner, and the new price is substituted. A cross is made in the "on hand" column at the date when the mark-down went into effect.

The buyer for men's suits frequently has had difficulty regarding shipments with manufacturers from whom he purchases. Often the shipper, when sending a number of suits promised, does not include in the shipment an adequate variety of sizes and colors. The buyer in this department, therefore, is trying to devise a method for controlling sizes and colors.

Question

1. Should an inventory sheet be kept for each size and color?
   (*a*) If not, what method of control should be adopted?

Stock 27

Thomas H. Pinkham and Sons—Perpetual Inventory in Retail Meat Market

The following letter was received by the Harvard Bureau of Business Research from Thomas H. Pinkham and Sons, pork packers and wholesale and retail meat dealers, located in a medium-sized, western city:

July 20, 1921

Gentlemen:

We are desirous of putting into use a system of perpetual inventory, if such is possible in the retail meat business. We have a system of our own, but we would like very much to learn if an investigation on your part has shown any such to be in use. Just what could you recommend along this line for us, handling, as we do, various kinds of meat, etc.? How will it be possible to determine just which cuts are making money for us and which are being sold at a loss.

Any information that you can give us along these lines will be greatly appreciated. Trusting that we may have the pleasure of an early reply, and enclosing a stamped envelope for your convenience, we are

Yours very truly,

Thomas H. Pinkham and Sons

After receiving this letter the Bureau made an inquiry from one of its cooperators in the wholesale and retail meat and provision business in Maine, from whom it received the following reply:

Gentlemen:

Reply to yours of the 25th, regarding our method of taking inventories. I assume you refer to our checking up of some of our departments, which we started in to do a little before your agent called a few years ago. We have continued the system up to the present time, and believe it is a great safeguard against carelessness, and worth many times the cost of checking up. We have no forms to send you, but are enclosing a copy of totals from our stock book.

We take stock of departments of the most perishable goods, such as fish, meats, vegetables and fruit, as often as every seven days, as it keeps the manager looking after the waste more closely. Of course, you understand we take the general inventory quarterly, besides the departments weekly, and we find this more important now in the readjusting period than ever, as under the present market conditions, it is very much harder to keep up a fair margin of profit.

I hope this information is what you want.

Very truly yours.

(Signed) B. A. Linnell

Enclosure

Retail Meat Market

Stock of Merchandise at beginning of period		$ 3,346.16
Add purchases		16,920.66
		$20,266.82
Less stock at end of period		2,848.42
		$17,418.40
Sales	$21,955.10	
	17,418.40	
	$ 4,536.70	

Question

Should the adoption of Mr. Linnell's system be recommended to Thomas H. Pinkham and Sons?

Stock 28

The Joycener Dry Goods Company—Merchandise Classification, Sales Record and Method of Inventory

The Joycener Dry Goods Company established its store five months ago in a small neighborhood center. The location secured was at some distance from the heart of this trading center and in a small store about 25 feet wide and 100 feet deep. The owner of the store had had some experience in practical merchandising, but had almost no general training. He had had the advantages of only a grammar school education. As an assistant, who was in active charge of the system side of management, Mr. Joycener had a young man, a graduate of the business administration department of one of the large universities.

During this first five months the store's sales were at the rate of $63,275 a year. This business was operated with an average of six salespeople. The stock of the store embraced yard goods, men's shirts for both dress and work, collars, ties, underwear, socks, caps, and overalls, women's underwear, corsets, hosiery, camisoles, brassieres, and petticoats, children's dresses, rompers, underwear, hosiery, ribbons, and notions.

Although they were not sure which articles were selling best, the managers thought that most of the business was done in men's shirts, underwear and socks, ladies' underwear, camisoles, and hosiery, and the children's lines.

The store had not been departmentized, and the stocks and sales were known only for the store as a whole. All parcels were wrapped by the salespeople, and each salesperson made his own change at the one cash register. This cash register did not have separate buttons or separate drawers for the different salespeople.

After these first five months of operation both Mr. Joycener and his assistant were convinced that they should secure more detailed figures on their business. Also, they were approaching the end of their first six-months' season and inventory taking.

Questions

1. How should the stock of this store be departmentized?
2. What sales records should the store keep?
3. How should the physical inventory be taken?

Stock 29

P. E. Boswell & Company—Method of Explaining the Importance of Stock-Turn

Mr. Williard McKay, the educational director in the department store operated by P. E. Boswell & Company, is preparing a course for the assistant buyers. The outline for this course includes sections on general marketing and distribution, on the method of buyers, on store system, both in general and in the Boswell store, on accounting, on advertising, on sales promotion, and on personal efficiency. Assistant buyers in style departments will receive additional work in the merchandising problems peculiar to style lines.

Mr. McKay believes that a section should be added to familiarize assistant buyers with the general principles of retailing, and in one subdivision of this section he wishes to treat the problem of stock-turn. Mr. McKay has received a copy of a pamphlet published by the Domestic Distribution Department of the United States Chamber of Commerce, which is reproduced in part below:

Merchandising Turnover and Stock Control

Nothing in this world is perfect; some waste of time or money or materials occurs in every transaction. To discover the causes of waste, to point them out, and to contribute in every way possible toward reducing them, will be the constant effort of this Department.

Knowing What is Taking Place While it is Taking Place

There should be no difficulty in expressing the idea that the number of turnovers are just as vital to a business as the amount of profit on each turnover. Thus: If the profit on each turnover is 5% and there are four turnovers in any given period, the profit on the stock investment is 20%; and, if the number of turnovers is doubled, the profit will be doubled.

Many years ago merchants and manufacturers who had studied distribution with exactitude, as if it were a science or at least an art, learned that the rate of turnover is one of the most important factors in business. If all of its relations are taken into consideration perhaps it is the most important factor, except always an accurate form of cost accounting, without which it is inconceivable that any business large or small can be conducted really well. We use the expression "almost inconceivable" because we know that some business heads have not established cost accounting. This is not an argument against it any more than if a merchant does no advertising his failure to utilize this

sales method is an argument against the need for publicity. If a business man does not keep his costs separated from each other, we are forced to ask: How does he know when some of his expenses are too high?

Clearly as the importance of the turnover appears and universally as its truth is accepted, there are frequent violations of its most fundamental principle—not to overbuy—even among comparatively progressive merchants. An addition to the cash discount or an attractive price concession sometimes will induce the purchase of considerably more goods than can be sold within a reasonable turnover period. This entails the likelihood that a season will pass leaving a costly lot of goods in stock and the resultant mark-downs and sacrifice sales as the only way of moving them.

It is, of course, possible to be too conservative and to buy less than can be sold. This is not really a serious condition, because, unless transportation facilities are very poor or the distance from supplies is very great, a shortage usually can be made up in a few days and often in a few hours. Average conditions only can be discussed here. Special cases demand special methods.

When the various expenses and wastes involved in slow turnovers are stated separately the subject becomes even more easily understood. What are the elements in which losses due to slow turnovers may be found?

(*a*) Investment
(*b*) Interest
(*c*) Mark-down
(*d*) Salaries and wages
(*e*) Shelf or storage room
(*f*) Prestige—Reputation
(*g*) Inefficiency

An examination of these elements shows their relation to each other.

(*a*) Invested money is the source of profit which in turn depends upon the amount of goods in stock and upon the length of time which these goods are carried. It is evident that to double the turnover comes to the same thing as doubling the amount of stock without increasing the investment. Or, vice versa, one-half as many turnovers results in doubling the amount of money invested for the same quantity of goods.

(*b*) Interest must be paid upon all borrowed money, and most merchants are borrowers. If the turnover is reduced from a period of six months to one of three months the interest on a given loan is reduced in the same proportion.

(*c*) Mark-downs are required for three principal reasons:

1. The goods have proved unsalable at the original mark-up.
2. Too many were bought and a change in the style or season has left some of them on the shelves—
3. With the result that they have soiled, chipped, bent or defaced otherwise by frequent handling.

(*d*) Salaries and wages must be included because every operation in every establishment costs something. When an unprofitable operation is performed it represents a loss. Roughly, these losses are due to:

1. Waste of time by management in reaching decisions as to when and what mark-downs are to take place.
2. Waste of time by salesforce.
3. Rewriting tickets.
4. Rearranging goods for mark-down sales.

(*e*) Shelf or storage room is a definite part of the expense of doing business; and that portion which is devoted to slow-selling merchandise is wasted.

(*f*) Prestige, reputation, for the high character or timeliness of merchandise is sought by most stores. There is a distinct waste measurable in dollars and cents when the reputation of an establishment is lowered by unstylish or shop-worn goods.

(*g*) Inefficiency always results in waste. The buyer whose judgment often is wrong usually makes the mistakes from lack of knowledge as to the stock and the speed or slowness with which it is moving. Frequent mistakes cause uncertainty in the mind of the one who makes them and tend to worse errors as time goes on unless some measures are taken to make them improbable.

Have you ever figured or even estimated the amount of these costs in your own business?

More losses which take the form of waste may be thought of, such as insurance on mark-down merchandise and other overhead items, but these cannot be divided conveniently and only need be mentioned.

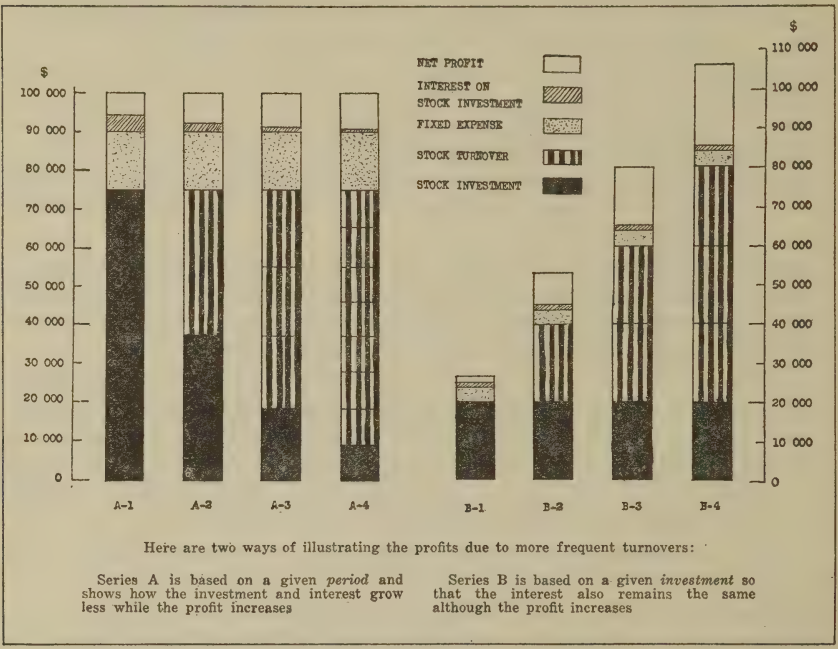
There is just one method of reducing this waste to a minimum. That is through records of purchases and sales which can be consulted at any moment; which will give a complete picture of the situation as it changes from week to week, from day to day, even from hour to hour if that be desirable; and which will supply the knowledge for immediate additional purchases, for mark-downs or for any other change in handling the stock.

In Form 65 on page 660 are shown two sets of graphs, Series A-1, A-2, A-3, A-4, and B-1, B-2, B-3, B-4.

Each of the columns in series A represents sales amounting to $100,000, but the number of turnovers increases from 1 in A-1 to 4 in A-4, and it will be observed that with each increase in turnover the stock investment as well as the interest are cut in two while the amount of profit increases.

Series B shows uniform stock investments and costs of interest throughout while the amount of profit increases with the number of turnovers.

Differently expressed, Series A proves the decreased investment needed to perform a given amount of business while Series B proves the increased business and profits which accrue to the same investment upon a multiplied turnover. . . . .



FORM No. 65. P. E. Bassett Company—Graphs of Turnover Profits*

Questions

1. What changes, if any, should Mr. McKay make in this explanation of stockturn in order to make it better serve his purpose?

2. Should his course bring out the difference between turnover of stock and turnover of capital?

3. Could the charts in the above explanation be used for this purpose?

*Chart copied from pamphlet on Stockturn with permission given by Domestic Distribution Department of the United States Chamber of Commerce.

F. INVENTORY

Stock 30

The Neil H. Brosman Company—Warehouse Inventory Methods in Chain Grocery Stores

Up to two years ago the Neil H. Brosman Company maintained, at the general office of the company, a perpetual inventory of the merchandise on hand in each of the three warehouses of the chain and in the three warehouses combined. In addition, at each warehouse there was kept a running inventory of the stocks on hand in that warehouse. These running inventories were in the form of commodity ledgers, and so much information was recorded that it was necessary to use, for each commodity, a complete spread of the ledger as opened. On the left-hand page there were recorded data as regards orders outstanding and merchandise in transit. On the right-hand page of the spread were records of goods received and prices, together with columns for recording receipts, shipments, and balance on hand. At the top of the left-hand page there was space for the name of the warehouse and the commodity. At the top of the right-hand page, in addition to a small space for entering the name of the commodity, the date, and the warehouse, there was space for recording the method of original packing, the method of repacking by the Brosman Company, the shipping weight, the minimum weight, the number of packages which could be shipped under car-lot rates, the estimated sales of the commodity per

ORDERED						
Order No.	Date	Quantity	Shipper	Date Shipment Requested	Follow-Up Mailed	Shipping Point

FORM No. 66. Neil H. Brosman Company—Goods Ordered Record Sheet

ROLLING											
Order No.	Date Shipped	Quant-ity	Shipper	Car Initial and No.	Date Tracer Started	Date Car Arrived	Date Car Unloaded	Diverted to	Prelim-inary Cost	Sheet No.	B/L Information

FORM No. 67. Neil H. Brosman Company—Goods on Way Record Sheet

month, and the maximum and minimum stock which the warehouse could carry. Below the name of the warehouse and the name of the commodity on the left-hand page, there appeared column headings like in Forms 66 and 67. On the right-hand page, below the spaces for general information as named above, were column headings as follows (Form 68) for recording data with regard to receipts of merchandise:

RECEIPTS												
Date	Receiving Record No.	Shipper	Car No.	Quantity	Brand	Lot No.	Preliminary Cost	Actual Cost	Adjust Cost	Cost Sheet No.	Goods Received for Reshipment	
											Warehouse	Quantity

FORM No. 68. Neil H. Brosman Company—Goods Received Record Sheet

On the same page, at the right of the space provided for recording receipts, there was a space for keeping the perpetual inventory. This space was ruled as shown in Form 69 on page 663.

In Form 69, the column headed "Quantity" was used to record the quantity of merchandise received at the warehouse, or in all warehouses, on the date in question. The column "Total Shipments" was used for recording total shipments from the warehouse to the stores, or to other warehouses. In the

PERPETUAL INVENTORY														
Date	Quantity	Total Shipments	Balance	Perpetual Inventory	Date	Quantity	Total Shipments	Balance	Perpetual Inventory	Date	Quantity	Total Shipments	Balance	Perpetual Inventory
1920					1921					1921				
11-27	Brt.	Forward			1-28	Brt.	Forward			3-30	Brt.	Forward		
28	Inventory				29					31				
29					31					Sales		Out		Days
30					Sales		Out		Days					
Sales		Out		Days						4-1				
					2-1					2				
12-1					2					4				
2					3					5				
3					4					6				
4					5					7				
6					7					8				
7					8					9				
24					25					27				
25	Holiday				26					28				
27					27	Inventory				29				
28					28					30				

FORM No. 69. Neil H. Brosman Company—Perpetual Inventory Record Sheet

fourth column, headed "Balance," was shown the net of the day's changes, in red if shipments had exceeded receipts, and in black if receipts had exceeded shipments. In the fifth column, headed "Perpetual Inventory," was entered the balance on hand.

In the general office and in the office of each warehouse there was a stock-records department, in charge of maintaining these commodity ledgers. A copy of each order, as it was given, was forwarded from the purchasing department, at the general office, to the stock-record department of the general office, for entry in the "Ordered" section of the commodity ledger. This stock-record department, in the general office, instructed the stock-

record departments of the three warehouses to make duplicate entries in their commodity ledgers.

As the information came in to the general office that the merchandise had been shipped, the stock-record department in the general office was informed, and proper entries were made under the heading "Rolling" in the commodity ledger. The entries under this heading were on the same line as the entry for the order under the heading "Ordered." The stock-record department at the general office also instructed the stock-record departments in the warehouses to make the proper entries.

As the merchandise was received at the various warehouses, and as receiving slips were made out at the receiving platform, these slips were forwarded to the stock-record department of that warehouse for entries to the "Receipts" section of the commodity ledger. For its entries to the "Quantity" column, in the section, headed "Perpetual Inventory," the stock-record department at the warehouse totaled the day's receipts as shown in the "Quantity" column of the "Receipts" section. The stock-records department, at each warehouse, reported daily to the stock-records department at the general offices upon the receipts of merchandise at that warehouse. These reports formed the basis for the "Receipts" entries in the commodity ledgers at the general offices, and, through the "Receipts" entries, for the entries in the "Quantity" column of the "Perpetual Inventory" section.

For the figures in the "Total Shipments" column of the Perpetual Inventory section, all orders were abstracted to a master order blank. The order blank was a form 24 inches long and 38 inches broad. This form provided, in parallel columns, a list of all the articles carried by the Brosman stores, and opposite each item, in the list, was a space for recording the price and the quantity desired. On the sheet for recording daily shipments, to which the store's orders were abstracted, the columns for pricing and quantity were removed so that after the name of each item there was provided a space large enough to record a considerable number of tally marks.

In making up this abstract of shipments from the warehouse each day, two clerks worked as a team; one of these had before him all the orders received and shipped the preceding day; the other had before him the abstract sheet. The clerk with the

orders read off the items and the quantity shipped, while the other clerk recorded these items on the proper line by entering tally marks. When made up, this daily-shipment sheet formed the basis for the entries to the various pages of the commodity ledger at the warehouse, and the carbon duplicate was forwarded to general headquarters for entries there.

In the general office the daily-shipment sheets from the three warehouses were consolidated on a fourth shipment sheet, just as in each warehouse the orders had been consolidated upon a daily-shipment sheet. From this final recapitulation sheet entries were made to the commodity ledger for the chain as a whole. At the end of each quarter a physical inventory of the merchandise on hand in the various warehouses was taken, and this physical inventory was compared with the computed inventory as shown on the commodity ledger. The company found from quarter to quarter wide variations between these two inventories. The variations seemed to follow no set law. Shortages and overages in the various commodities occurred without any apparent relationship. In studying the system to determine the cause of these differences, it was found that the discrepancies were apparently caused by errors in consolidating the orders upon the daily-shipment sheets in each warehouse and in consolidating the daily-shipment sheets from the three warehouses at the general office. In view of the fact that the forms for both order blanks and daily-shipment sheets contained lines for over 300 items, it was evident that the lines had to be placed close together. Thus it was almost impossible to avoid errors made by reading or recording the wrong figures against an item.

Accordingly, orders were issued to clerks to be extremely careful in this work, and the management even shifted the persons on the work every two hours that they might secure a change from the constant application. Even these precautions did not reduce the number of errors, and as a result the buyers were frequently working on incorrect figures. Therefore, stocks became out of balance, and it was thought that conditions were worse than they would have been had there been no attempt at a perpetual inventory.

As a result of these troubles, it was decided to eliminate the perpetual inventory and to substitute in its place a weekly inventory. To accomplish this, the stocks carried by the chain

were divided into $5\frac{1}{2}$ groups, each group being of a size that in any one warehouse one man could take an inventory of the entire group in a working day. There were $5\frac{1}{2}$ groups because it was the custom in the warehouses to work only half a day on Saturday. The inventory man in each warehouse took an actual count of the merchandise in one of the groups each day. Thus on Monday, in all three warehouses, a count was taken of the merchandise on hand in Group No. 1; on Tuesday each warehouse secured a physical inventory of the stock in Group No. 2; and so on through each warehouse. At the end of each day these inventories were forwarded to the general office on the following form:

WEEKLY INVENTORY AND SHIPMENT SHEET

Warehouse________ Period from________ to________ inclusive

Commodity	Packing	Shipments Inter-Warehouse		To Stores	Days Out	Balance on Hand	Commodity	Packing	Shipments Inter-Warehouse		To Stores	Days Out	Balance on Hand
		Warehouse	Quantity						Warehouse	Quantity			

FORM No. 70. Neil H. Brosman Company—Weekly Inventory and Shipment Record Sheet

Under the heading, "Shipments—Inter-Warehouse," the name of the warehouse is entered in the column, headed "Warehouse," and the quantity shipped in the column, headed "Quantity." In the column, headed "To Stores," shipments to stores are entered, the figure being computed as follows:

Previous week's balance on hand
\+ Receipts current week

Total handled
− Present balance on hand

Total shipped
− Shipments to other warehouses

Total shipments to stores for current week

The quantity found in the warehouse is entered in the column, headed "Balance on Hand." In the "Days Out" column is entered the number of days during the week for which the warehouse reported had no stock of the commodity in question.

No estimated inventory is used to supplement this weekly continuous physical inventory with the exception that at the end of each month an inventory, partly estimated, is made up for use in preparing a balance sheet which goes to the company's office. This inventory is partly estimated, because for the day on which it is prepared an actual physical inventory is available for only one of the $5\frac{1}{2}$ warehouse groups; the other $4\frac{1}{2}$ must be estimated. For the balance sheet, which is published semi-annually, an actual physical inventory is taken of the entire stock.

For recording this data at the general office and in the stock-recording departments of the various storehouses, there is kept a commodity ledger similar to the one previously kept under the old perpetual-inventory system. As in the old form, so many columns are required that it is necessary to use both sides of the spread of the open ledger. The left-hand page is similar to the earlier form, containing data with regard to goods on order and goods in transit, and with the addition of columns to show an estimated cost. The cost figures are taken from the invoice before the goods arrive, the estimated freight, express, and cartage being included. The figures for a preliminary or estimated cost are necessary because merchandise covered by the order will have been received in a warehouse and billed out to stores before the final cost figures are available. It will be recalled that all buying for the chain is done at the main office and that all invoices are received at the main office, but that the merchandise is shipped direct from the source to one of the warehouses. The invoice arrives at the main office so promptly, as a rule, that there is time for the traffic department to compute an estimate of the freight charges, for the cost department to calculate a cost per unit on the basis of the invoice cost and the estimated freight, and for a sheet, bearing this data, to reach the warehouse before the goods arrive. Usually goods are needed for shipment to stores soon after they arrive at the warehouse, so soon, in fact, that they must be billed out before there would be time for the warehouse to forward the final freight charges to the general offices and get back a final cost figure from the cost department. The preliminary or estimated cost figures are used for charging stores between the time when the merchandise begins to move out of the warehouse and the time when the final cost figures arrive. In general, these preliminary costs vary less

ORDERED					PRELIMINARY COST	
Order No	Date	Quantity	Shipper and Shipping Point	Date Shipment Req.	Cost Sheet No. Department	Cost

FORM No. 71. Neil H. Brosman Company—Revised Record Sheet for Goods Ordered

ROLLING										
			Car		Date			Date		
Order No.	Date Shipped	Quantity	Initial	No.	B/L Sent to Warehouse	Date Invoice Checked	No. of Packages Invoiced	Arrived	Tracer Started	Diverted To

FORM No. 72. Neil H. Brosman Company—Revised Record Sheet for Goods in Transit

than half a cent a case from the final costs as computed after all invoices and freight bills are in. Unless a variation of more than half a cent exists, the preliminary figures are allowed to stand without change.

Forms 71 and 72 show the revised record sheets in which the left-hand page is printed.

On the right-hand page of the spread are three major headings, "Receipts," "Costs," and "Shipments," with subordinate columns as indicated in Forms 73 and 74 shown on the next page. It is left to the discretion of the warehouse manager whether the column for "Brand," "Floor," and "Bay No." under the heading "Receipts" is used or not. Some warehouses use them

Receipts								Costs				
Order No.	Receiving Record No.	Date Rec.	Car No.	Quantity	Brand	Floor	Bay No.	Established Cost	Actual Cost	Cost Sheet No.	Total Cost of Each Receipt	Accumulated Dr.

FORM No. 73. Neil H. Brosman Company—Revised Record Sheet for Receipts and Costs

Shipments												
Accumulated Credit	Total Cost of Weeks Shipments	Cost	Date		Cost Change No.	Quantity Shipped			Days Out	Bal. on Hand	Week Ending
			Sent to Cost Dept.	Changed		Inter-Whse.		To Stores			
						Whse.	Qnty.				

FORM No. 74. Neil H. Brosman Company—Revised Record Sheet for Goods Shipped

and some do not. Under the major heading "Costs," the estimated cost is the same as the preliminary cost and is brought forward from the preliminary cost column on the left-hand side of the spread. As previously explained, it is used when the actual cost is not available. In the column headed "Cost Sheet No." is entered the number of the cost sheet used by the general office in advising the warehouse of the preliminary cost. The cost sheets show the name of the commodity, the shipper, the order number, the car number, the date shipped by the shipper, the packing, the cost per unit, and the quantity.

Under the major heading "Shipments" all entries are on a weekly basis. The entries to the columns of the commodity ledger by warehouses under "Quantity Shipped," "Days Out," and "Balance on Hand," are taken directly from the weekly inventory and shipment sheet. The entries to these same columns in the commodity ledger for the three warehouses are

abstracted from the weekly inventory and shipment sheets of the three warehouses. To compute the total cost of the week's shipments, the quantity shipped to stores is added to the quantities shipped to other warehouses. This total is multiplied by the "laid down at warehouse" cost, which appears in the column headed "Cost." The result is entered in the column headed "Total Cost of Week's Shipments." The entries in the column headed "Accumulated Credit," are an accumulation of the entries in the column headed "Total Cost of Week's Shipments."

At the top of the left-hand page of the spread there is a space for entering the name of the commodity and the method of packing. At the top of the right-hand page of the spread, this same information is repeated with the addition of the name of the warehouse.

For the use of buyers the information recorded in the commodity ledger is abstracted to smaller forms which show for each commodity on a given date, in total and for each of the three warehouses, the sales of the preceding month, the days out the preceding month, the goods on order and the shipping date, the goods rolling and the date they were shipped, the estimated stock on hand, the sales for the preceding two weeks, the sales for the preceding week, the days out the current month, and remarks. In these reports, under the heading "Goods Ordered," each order is listed separately, showing the quantity, the firm selling, and the shipping point, if that will not be clear from the name of the firm. Under the heading "Rolling" is indicated the quantity, the selling firm, and the routing.

In addition to the items carried in the regular commodity ledger, the general office receives from each warehouse a daily report on the stocks of perishable commodities, such as dried fruits, nuts, salt fish, lard, lard compounds, candy, yeast, oleomargarine, smoked meats, cheese, butter, and dried vegetables. Daily reports are also received on the quantity of sugar on hand. These reports are supplementary to the commodity ledger and are abstracted daily for the information of buyers.

In addition to the daily perishable report, the general office receives from each warehouse each day a report on commodities of which that warehouse has an overstock, and the commodities of which that warehouse has no stock. These reports are known in the firm as "Overstock Reports" and "Out Reports." Both are abstracted by commodities for the information of buyers.

Questions

1. Should the Brosman Company have attempted to improve its perpetual inventory system in order to retain it, instead of changing to the weekly continuous-inventory system now in use?
2. Does the commodity ledger, as constructed at present, provide all the information necessary?
3. Does it provide more information than is necessary?
4. Should any additional reports from warehouses be required?

Stock 31

Kane Drug Company—Taking Inventory

In taking inventory the Kane Drug Company has had great difficulty in getting its figures into such shape that a financial statement can be made out within a reasonable length of time. Originally the inventory was taken by a crew of six people, working in pairs. The articles, the number on hand, and the price, were called off by one man and listed on a sheet by the person who worked with him. This part of the inventory took only a few hours, but the extension of these figures and the computation of the total for each department required several days' work on the part of the bookkeepers. Numerous complex computations which were necessary caused many errors. Furthermore, figuring each multiplication individually required more time than the proprietor considered necessary. The large number of checks required to eliminate errors also used up a great deal of time. To shorten the work and to eliminate as many of these evils as possible Form 75, illustrated on page 672, has been developed.

This form has nine columns across the top, numbered from 1 to 9. Each of these columns is subdivided into three smaller columns, one for dollars, one for dimes, and the other for cents. At the right of this section are five other columns for the fractions of packages or cases on hand. In operating this system the men work in pairs as before. One man calls out the name

1/2		
1/3		
1/4		
1/6		
1/12		
9	9	
	90	
	900	
8	8	
	80	
	800	
7	7	
	70	
	700	
6	6	
	60	
	600	
5	5	
	50	
	500	
4	4	
	40	
	400	
3	3	
	30	
	300	
2	2	
	20	
	200	
1	1	
	10	
	100	

FORM No. 75. Kane Drug Company—Form of Inventory Sheet

of the article, the number on hand, and the price, while the other sets down these figures in the proper columns of the form. For example, if there are $9\frac{1}{3}$ dozen bottles of a patent medicine costing \$4.67 per dozen, 9 will be entered in the \$4.00 column, the 60-cent column, and the 7-cent column, and \$4.67 will be entered in the $\frac{1}{3}$ column. Likewise, if there are $6\frac{1}{2}$ cases of toilet goods at \$3.62 per case, 6 will be entered in the \$3.00 column, the 60-cent column, and the 2-cent column, and \$3.62 will be entered in the $\frac{1}{2}$ column. When the inventory of a department has been completed, each column will be added and the total multiplied by the unit at the top of the column; the grand total of these columns gives the value of the merchandise on hand in that department. In a comparatively short time, therefore, it is possible to find out the value of the stock on hand.

In case it is desired to list the amount on hand of each article, the number and prices may be listed as under the previous system. The number of each article on hand and the price may then be called off to two tabulators in the office, who will enter the figures on the form described above. The total value of the stock on hand can be determined in the same manner, and the totals of the two sheets compared; if they fail to agree, the items can be checked until a mistake is found.

Questions

1. What are the advantages and disadvantages of this system?
2. Would it be advisable to adopt it in a retail grocery store doing a business of \$60,000 annually?

Stock 32

Conyngsby–Blair Company—Cost vs. Retail Method of Inventory

The capital and stock of the Conyngsby-Blair Company is entirely in the hands of Mr. Harold B. Conyngsby, president and general manager, and Mr. Hamilton Blair, Jr., treasurer and controller. These two men give all their time to the general direction of the affairs of the company, which operates a department store in one of the large cities east of the Appalachian Mountains. None of the other executives have an interest in the firm. There is a general superintendent, who has charge of personnel, plant, and service; an advertising manager, who has charge of all publicity and display work; and a merchandise manager, in active charge of both buying and selling and responsible to the firm for profits and sales in the various departments.

For the last fiscal year the store's merchandise statement was as follows:

Gross sales				$4,114,482.06	
Returns and allowances to customers				390,672.38	
Net sales					$3,723,809.68
Net inventory of merchandise at beginning of year	$ 543,280.00				
Net purchases of merchandise	2,421,388.25				
Inward freight, express and cartage	13,206.31				
Gross cost of merchandise handled		$2,977,874.56			
Net inventory of merchandise at end of year		570,510.00			
Gross cost of merchandise sold			$2,407,364.56		
Cash discount received on purchases of merchandise			75,347.42		
Net cost of merchandise sold				$2,332,017.14	
Alteration costs				61,411.84	
Net cost of sales					$2,393,428.98
Gross profit					$1,330,380.70

The net profits for the year's operation, before deducting Federal tax, were $50,796.31.

Both Mr. Conyngsby and Mr. Blair were dissatisfied with this showing. They believed that, in view of the volume of business done and the general conditions in the trade, reasonably good management should have paid them three or four times as much net profit. In searching for reasons why the store did not earn as much as they thought it should have, they came to the conclusion that there were no outstanding faults in the management except perhaps in the stock control and stock record system. Accordingly the two members of the firm began a careful study of their stock records and of possible ways of improving these

records. They found the stock records to be so intimately tied up with the method of inventory that the question of the system of stock records to be adopted depended largely upon what method of inventory was adopted. Therefore, it seemed that the first step was to determine whether the store should continue to operate upon the cost method of inventory as it had been doing in the past, or change to the retail method.

In order to get first-hand information upon the advantages and disadvantages of the two methods, both Mr. Conyngsby and Mr. Blair wrote to a number of men in the department store business, trying to divide their letters as evenly as possible between stores operating on the cost method and stores operating on the retail method. The replies to these letters listed a number of advantages and disadvantages from varied points of view. Mr. Conyngsby and Mr. Blair had these advantages and disadvantages gathered into one list.

In making this list they assumed that whatever was an advantage for the retail method was a disadvantage for the cost method and vice versa; their list, therefore, was an enumeration of the advantages of the cost method and the advantages of the retail method. Further, Mr. Conyngsby and Mr. Blair listed the points made in the various letters as nearly in the authors' words as possible. They did not attempt to pass judgment on the idea or argument which the author had set forth. The list ran as follows:

Advantages of the Retail Method of Inventory

1. It is easier to take the physical inventory by the retail method.
2. By the cost method the merchandise manager cannot check the profit-making ability of his buyers as well as he can by the retail method.
3. It is natural to figure percentages of various expense items on sales (at retail). If the inventory and all other statistics are carried at retail, the statistical work will be simplified and the danger of confusion and error lessened.
4. It provides a clearer, a more direct, and a more simple way of getting at figures for merchandising purposes.
5. It enables the management to know at more frequent intervals the percentage of mark-up maintained by the various departments.
6. The store gains nothing by showing actual cost of goods in an inventory, because in adjusting stocks at inventory time the cost of the article means nothing. What the store wants to know is what the article will bring at retail.

7. Under this method the firm knows at all times the current retail value of its merchandise on hand.

8. By this method the store is less likely to fail to get stocks, purchases, and sales figures upon a comparable basis.

9. Figures for stocks and purchases, if at retail, bulk larger and hence can better be used as a means of controlling buyers than can similar figures at cost.

10. It gives a more honest inventory. Under the cost system the tendency is to feel that there is no loss on merchandise until the merchandise is sold. In using the retail method one gets down to as near an honest valuation as possible.

11. The expense of taking the inventory and of keeping the statistics is less than under the cost method, because less bookkeeping and less calculation are required. Also the retail method is a less fertile source of error than the cost method because it eliminates the looking up of costs and calculation based on these costs.

12. The retail method is the only safe method of operating and on the whole it gives more satisfactory results.

Advantages of the Cost Method of Inventory

1. The cost method of inventory, if proper care is exercised in taking the inventory, gives the management the true market value of the merchandise on hand. This figure is almost unobtainable under the retail method because that method rarely takes all mark-downs into consideration. The general feeling is that one is less likely to take adequate reductions under the retail method.

2. It is more accurate than the retail method. By the retail method one can never get absolute accuracy. That this can be done with the cost method is the most important argument in favor of the latter.

3. The cost method does not depend, as does the retail method, upon the assumption that profits will be at the same rate in two successive years.

4. The retail method exaggerates the inventory on a rising market when the store is taking mark-ups.

5. From the standpoint of merchandise control, the open-to-buy should not be limited on a rising market and should be carefully limited on a falling market. In using the retail method the tendency is to work in a direction opposite to both of these rules.

One of the men in answering Mr. Blair's letter said: "In my opinion there is no comparison between the two methods, the retail method having many advantages and the cost method a great many disadvantages." In explaining why his store was still operating on the cost method in spite of this opinion, he said: "It is the system always used, and although I myself am greatly in favor of the retail method, certain existing conditions,

too numerous to mention and not of interest to you, have made it seem inexpedient to change over." This same man stated that under the cost method he was able to get reasonably accurate figures on stocks on hand at the close of each month, or each week, or any other period that he desired. He explained that he computed this estimated stock on hand by using a percentage of gross profit in each department and a percentage on sales of mark-downs and shrinkage which experience had shown to be fair for the department in question. In computing the inventory the store added to the opening inventory at cost the purchases at cost and deducted from this figure the sales reduced by the percentage of gross profit and the percentage of mark-downs and shrinkage. The remainder was the estimated stock on hand at cost.

One of the replies from a store using the retail method of inventory cited an interesting case which had come up in their toilet goods department. The buyer had taken advantage of an opportunity to purchase a lot of merchandise at a low price and had put on a special sale at a low rate of mark-up. The purchase and rapid sale of this large lot of goods at the small mark-up had resulted in a large discrepancy between the retail-book-inventory figure and the physical-inventory figure taken at retail. The same correspondent stated that under the old way of operating the retail method, by which mark-downs were used in arriving at a cumulative or maintained mark-up percentage to be applied to the retail figure for stock on hand to get it back to the cost figure, an exaggerated gross profit sometimes was shown. The correspondent cited these two cases, not as indictment of the retail method, but as examples of problems which might come up in using the retail method.

Questions

1. What are some additional advantages of either method?
2. Are all the objections offered to the retail method tenable in view of Accounting Problems 28 to 33 inclusive? (See pages 68 through 84).
3. What difficulties and expenses would the Conyngsby-Blair store encounter in changing from the cost to the retail method?
4. Should the store change from the cost to the retail method?

(In the consideration of this problem omit all questions arising out of Federal income and excess profits taxes).

Stock 33

Rovelstad Brothers—Retail Method of Inventory in a Unit Jewelry Store

Rovelstad Brothers have a well-established jewelry store in one of the larger cities in northern Indiana. Last year the firm's sales were $58,489.34. In addition to this amount the repair department took in a total of $9,035.86. At the beginning of the last fiscal year the merchandise on hand was carried on the books at $44,839.10. The physical inventory taken at the end of the last fiscal year showed merchandise on hand amounting to $47,229.23. This was depreciated to $40,873.32 for entry in the financial statement. The stockturn for the year was 0.9 times.

For the past four years records of sales have been kept by departments. Expense accounts, however, have been kept only for the store as a whole. For keeping this record of sales, the stock has been divided into the following departments:

Watches	Diamonds	Clocks	Plated Ware
Toilet Sets	Jewelry	Rings	Sterling Silver
Umbrellas	Glassware and	China	Novelties

Rovelstad Brothers have also kept a record of their sales by months and have computed the percentage of each month's sales to the total sales for the year. Averaging the monthly percentages for the past three years gives the following results:

January	5%
February	5%
March	7%
April	6%
May	7%
June	9%
July	7%
August	6%
September	6%
October	6%
November	6%
December	30%

The two proprietors have come to the conclusion that the cost method of inventory does not give them satisfactory figures.

Also in handling their stock by the cost method the Rovelstads have been puzzled by the question of how to treat articles of jewelry which have been made over or changed in the repair department because they did not sell well in their original condition, or were damaged. Such cases arise with most frequency in the jewelry and ring departments, where it is very often necessary to interchange settings in rings, broaches, bar pins, and similar articles. In looking about for possible means of securing better statistics of stocks on hand it has seemed to them that the retail method of inventory, as developed by department stores, is suited to their needs.

Questions

1. How can the principles of the retail method of inventory be applied in the Rovelstad Brothers' store?
2. Should the retail method be adopted?

Stock 34

B. F. Moorehead & Son—Retail Method of Inventory in Unit Drug Store

A retail drug store operated by B. F. Moorehead & Sons was established in its present location in 1899 by Mr. Moorehead. Mr. Moorehead has been in active charge of the store since its establishment, although in 1912 he took in his son, Mr. W. K. Moorehead, as junior partner.

In 1920, the store's sales aggregated $72,673.98. To do this volume of business, the store carried an average inventory of from $25,000 to $30,000. Its stockturn for the year was 1.55 times. Of the store's business, 95% was cash and 5% charge, the charge sales being made largely to men known personally to Mr. Moorehead. Losses from bad debts practically never occurred.

The store employs five registered pharmacists, all of whom spend about 20% of their time filling prescriptions.

In 1920 the store's sales were divided among the various lines carried in the following ratio:

Prescriptions	14%
Proprietary medicines	14%
Toilet articles	43%
Rubber goods	2%
Cigarettes	less than ¼ of 1%
Candy	3%
Other goods	24%

The last item was made up of sales of drugs not compounded into prescriptions, stationery, and novelties.

Mr. Moorehead has always operated his store on the cost method of inventory, taking stock at the end of each fiscal year; that is, as of February 1.

Question

Could Mr. Moorehead advantageously adopt the retail method of inventory in his store?

Stock 35

E. T. Bisweinger & Company—Method of Taking Inventory in Unit Grocery Stores

The grocery store of E. T. Bisweinger & Company has sales slightly in excess of $500,000 a year. The store is well known in the vicinity for its complete line of fancy groceries, and for the excellence of its bakery products. These two lines are specialties carried in addition to a well-rounded stock of staple groceries, of salt and smoked meats, green vegetables, and fruits. The store is not departmentized, and it sells for both cash and

credit. Within the city the store makes deliveries in its own Ford trucks twice a day. To many outlying districts it delivers once a day or every other day.

In the past the store has taken a physical inventory once a year, the inventory being taken during the last week of December in order that the books may be closed as of December 31. In taking the inventory all employees are set to work in the morning, working as best they can between sales during the day, and then closing the store at the regular time and working on into the night until the work is completed. The job usually is finished in less than 24 hours, without extra help.

In taking inventory the salespeople work in crews of two, one man handling and counting the stock, the other man making the entries on the inventory sheet. These inventory sheets are ruled in four columns, the headings from left to right being quantity, article, price per unit, and extension. In taking inventory the salesperson counting announces the item and then the quantity found. The recording clerk enters this information on the sheet. Later the sheets are forwarded to the bookkeeping office where the price per unit is entered and the extension computed.

There is no check of the count as given by the salesperson counting. The recording clerk is not expected to check up on the count as called to him by his crew mate.

The store has never attempted to secure any type of computed inventory, and it takes no regular inventory other than the one mentioned. Of course, if necessary, the proprietor may make special investigations of the stock on hand in a given line.

Questions

1. How could the method of taking the physical inventory be improved?

2. Should the store install any type of book or running inventory?

Stock 36

F. A. Fanburn, Inc.—Piece Control

Mr. Fanburn, of the firm of F. A. Fanburn, Inc., owners of a medium-sized specialty store, was placed in touch with a women's specialty store in Chicago which had established a system of piece control in its costume and fur departments. According to this system, a three-coupon tag was made out in the marking room for each piece as that piece was received. One coupon of this tag was detached in the marking room and placed in a file as a control of the goods on the racks. The second and third coupons remained attached to the garment until the garment was sold; then the second coupon was detached and forwarded with the sales slip to the auditing office. The third coupon remained attached to the garment. The second coupon, after having passed through the auditing office, was returned to the department and became the authority for removing the first coupon from the active file. In a letter to Mr. Fanburn, the controller of the Chicago specialty store described the system as follows:

PERPETUAL INVENTORY FOR LOW COST DRESS AND WASH DRESS DEPARTMENTS

I. Lay Out

A. Files to be kept in Department by Clerk.

1. Files to be divided into two sections
   (*a*) Active
   (*b*) Inactive

   (1) Active file to be divided into compartments for Low Cost Dress and Wash Dress and to contain all tickets representing garments in stock.

   (2) Inactive file to be divided into compartments for Low Cost Dress and Wash Dress and to serve as a transfer file for tickets representing goods sold from stock or returned to manufacturer.
   (*a*) Active
   (*b*) Inactive

(1) Active file to be divided into compartments for Low Cost Dress and Wash Dress and to contain all tickets representing garments in stock.

(2) Inactive file to be divided into compartments for Low Cost Dress and Wash Dress and to serve as a transfer file for tickets representing goods sold from stock or returned to manufacturer.

At all times both files are to be kept under lock, for not only is the information contained within confidential, but also every ticket represents a garment and the loss or misplacement of a ticket is bound to throw the stock in the department off.

II. Tags

Hereafter, low cost dresses and wash dresses will be tagged in the Marking Room with special tags. Special tags, made in three pieces, plainly marked for each department, will be used. Entry and style number, size, price and description of garment must appear in complete form on the three parts of each ticket. Each ticket must be accounted for and to insure this the Marking Room will be charged with every supply of tickets given out (as from 100–200) and must account for all numbers in numerical rotation. Tickets must also be used in numerical order.

After the merchandise, in any order, has been checked and marked from the information on the invoice, the pieces are taken to the department. In the department the bottom portion must be detached from each ticket in the lot and forwarded in an envelop to the Office Manager. This envelop should be marked to show the number of tickets it contains and date on which invoices went through the Marking Room. The Department Clerk should keep a record of all "bottom" tickets sent to the office and the date, so to make sure that none are lost or mislaid. The "bottom" tickets will be rechecked against the original invoices which come up daily from Marking Room. This is a safeguard taken to make sure that there is a ticket for every piece of incoming merchandise and that the price has been transferred correctly from invoice to ticket. After being checked up, the "bottoms" will be returned to the Department Clerk and may then be filed in the active stock file under the proper departmental division.

Every garment in stock should be tagged with a two-piece ticket which represents the two upper portions of a three-piece ticket that has been attached in the Marking Room. The bottom part of each of these tickets should be in the Active File.

When a garment is sold from stock, the bottom portion of the attached tag must be detached. When the sale is sent to the office, cash, charge or C. O. D., as the case may be, the ticket taken from the garment sold must accompany the sale. All sales tickets must bear the entry and style number of the garment sold. The ticket from the garment described on the saleslip, which is to be sent with all slips, must be marked on back by salesperson with (1) kind of sale (cash, charge or C. O. D.); (2) number of sale and serial number; (3) date; (4) salesperson's name or number. This information is necessary as these ticket stubs are sorted by salespersons and checked against tally cards in the office to make sure that no stubs are missing.

Cashiers and authorizers will be instructed to save every ticket coming from the Low Cost Dress and Wash Dress Departments, and to

accept no sales unless proper ticket comes with it. A special receptacle has been provided for these tickets in both the cash and charge office. At the end of the day the tickets from the Cash Office and Charge Office will be turned over to Audit Department and will be audited against the tally cards for the day. They will then be returned to the department. The department clerk, using these tickets from sold garments as a guide, will remove all "bottom" tickets bearing the same serial numbers from the Active File. These bottom tickets will be stamped with the date of sale and word "sold," also any other information that the department may desire for reference; as salesperson's name or number.

III. Credits

When garments are returned by customers for credit, the *rule* shall be that the ticket attached to the garment at the time of sale must be returned with garment, if credit is to be granted.

In case that the duplicate saleslip or the ticket are returned with the garment, the customer must be taken to the Adjustment Office. The Adjustment Office will take the responsibility of determining the approximate date of original sale and whether garment shall be accepted from customer for credit. Adjustment Department will also sign the credit for "no slip," and the department will accept the decision of the Adjuster in this matter.

The procedure, when goods are accepted for credit in all other cases, will be to make out a credit slip with the ticket number, entry and style number of garment and price. From the upper portion of the original ticket returned with the dress the number can be ascertained. The article will be turned over immediately to the clerk in the department who will be responsible for same until a new ticket has been made ready for stock. The clerk will check up credits and enter same at the end of the day in the Credit Book. On each entry will be noted the respective ticket number. The clerk will use this record in looking up the proper bottom tickets in the Inactive File and will take these from the file. A new two-piece ticket will be made out from each of these bottom tickets and will be numbered to correspond with the proper bottom ticket.

The bottom ticket will be stamped with proper date and the word "Returned," also the kind of sale, whether cash, charge or C. O. D., will be noted thereon. The bottom ticket will be pinned to the new piece ticket and the clerk will attach both to the proper garment. It will be the duty of the Assistant Buyer to check the information recorded on these two tickets, to see that the proper entry has been made, and then, unpin and return the bottom tickets to the clerk. The clerk will then place these tickets in the Active File.

IV. Charge Backs

When merchandise is to be returned to manufacturers the tickets will not be detached in the department. The marking-room clerk will

send the middle portion of each ticket to the Office with her charge backs. After these tickets have been checked against charge backs, they will be returned to the department and will be authority for transferring bottom tickets of the same number from the Active to the Inactive File.

REMEMBER:

1. There must be at all times a ticket in the Active File for every garment in your stock.
2. Garments can get in your stock from only two sources—Marking Room or Returned Merchandise from customers.
3. Garments can leave your stock in only two ways—Charge Backs to Manufacturers and sales to customers.
4. Never transfer a "bottom" ticket from Active File to Inactive File or vice versa without permission from Office.

Mr. Fanburn's attention also was called to an article in the *Grand Rapids Furniture Record*, Vol. XLIII, No. 3, September, 1921, Page 150. This article and the accompanying illustrations are reproduced below:

A SIMPLE PERPETUAL INVENTORY SYSTEM

How Halle Brothers, of Cleveland, Keep Tab on Stocks on Hand, Turnover and Sales by Departments without Difficulty

Progressive merchants realize the advantage of a perpetual inventory, but are sometimes in doubt as to how to keep one without installing a too elaborate and costly system. A simple method in use by Halle Bros., Cleveland, Ohio, combines a perpetual inventory, a record of each line's turnover and an identification of each piece.

When new merchandise arrives, a small tag, bearing a serial number, is at once affixed to each piece. The numbers of these tags are then recorded in a register book, and a short description of each item entered after the number. For example, if Tag 378 is attached to a Chesterfield, the entry would read: "No. 378, Chesterfield," etc. The receiving clerk uses the register book to make up his daily reports of all goods received, and these reports are used, in turn, for posting invoices and stock cards.

Whenever a piece is sold, the sales slip is sent first to the stock clerk, who enters the customer's name opposite the number of the item sold. This method, not only shows the numbers which have been removed from stock, but also indicates to whom the various items were sold. Any floor samples are indicated by the letters, "F. S." Returned goods are treated exactly as new merchandise.

This method of stockkeeping shows just what merchandise is on hand at any time, thus obviating the chance of overstocking any

item and guarding against the danger of allowing certain lines to run too low. With a few modifications it is equally applicable to both large and small business.

Instead of a book, Halle Brothers use a filing system, the two sides of the cards used are shown below in Form 76. For a small store, a book will suffice, but for a large store a filing system is the best. By going through these cards daily, a complete report can be made at any time of the pieces in stock and pieces sold, and tab can be kept on the turnover of any line. Halle Brothers have a stock clerk who keeps these records. In a smaller institution a bookkeeper can do this in addition to her other work.

Last year, only three articles, not listed as sold on the inventory cards, were missing from Halle Brothers' furniture stock. Two of these pieces were later located in different parts of the store, having been used by employees. The other piece was undoubtedly stolen from the warehouse, as no track could be found of it.

Number	In W. H.	Out W. H.	To	Number	In W. H.	Out. W. H.	To	Number	In W. H.	Out W. H.	To

Style No. Mfrs. No.	ON ORDER					RECEIVED				
	Number	Date	Quan.	Cost	Deliv.	Date	Inv.	Order	Quan.	Cost
Mfr.										
Article										
Wood										
Cover										
Yardage										

Price	Date	Price	Date	SEMI-ANNUAL INVENTORY					
				Date	Quan.	Price	Date	Quan.	Price

Bal. in Stock																			
Date																			
Bal. on Order																			
Date																			

FORM No. 76. Halle Brothers—File Cards Used in Perpetual Inventory System

The range of merchandise in Mr. Fanburn's store comprises ready-to-wear clothing for women, misses, children, furnishings,

millinery, dry goods, furniture, house furnishings, kitchenware, notions, small wares, glass, and china. Men's clothing is not carried, although there is a men's furnishings department.

Question

Should Mr. Fanburn establish either of the two systems described, either with or without changes, in any of his departments, in an attempt to eliminate the stock shortages described in the preceding problem?

Stock 37

Hagar Dry Goods Company—Stock-Taking

Jameson Hagar is interested in finding a simple but accurate method of stock-taking. In the operation of his dry-goods store the taking of inventory has been one of the tasks which he especially dislikes and which has caused him much annoyance. In the past all inventories have been taken by salespeople, who have made a list on scratch paper of the articles on hand and then recorded the amount and price of each. His employees, however, have sometimes overlooked merchandise in their haste to get through with the disagreeable task, and they have often made mistakes in recording the amounts and prices of goods on hand. The proprietor has found that unless his workers are given a definite plan to follow, the inventories which they take are not accurate.

Recently Mr. Hagar learned that a particularly progressive department store is taking its inventory in the following manner: A large sheet is folded once in the middle, making a pamphlet of four pages. At the head of the first page is recorded the fixture number, section, shelf, date, first stockkeeper, second stockkeeper, buyer, and department. The rest of the page is divided into five columns, provided for the season letter, the article, quantity, unit, and selling price. The cross lines are numbered serially from top to bottom.

The second page is headed "Deductions." On this page, opposite each line on the first page, are spaces containing serial numbers from 1 to 50, and a small space to record the selling price. The third page is a duplicate of the first, and the fourth page a duplicate of the second. A carbon is inserted between the two pages so as to record on the third page, only, the season letter and the article. The pages are then sealed together in three places so that each stock-taker is able to see only his own page.

There is one of these sheets for each section, shelf, draw, or bin even though it may be empty. These sheets are given out according to a prearranged plan, so that it will be definitely known that every place is properly covered. These sheets bear the department and sheet numbers so that they may be accounted for when the stock-taking has been finished.

Stock-takers work in pairs, one calling off the season letter, article, quantity, unit, and selling price; the second recording the items on the sheet. As soon as the sheet has been filled, it is turned over to the person in charge, who breaks the seal and folds the sheet back, so that the two inside pages are on the outside. The sheet is then sealed again and given to a second pair of stock-takers who list the quantity, unit, and selling price in the same manner as before.

When the stock is taken after business hours there is no necessity for deductions, in which case the second and fourth pages are left blank. If the stock is taken during business hours, however, deductions for merchandise sold are recorded by crossing out one figure on pages 2 and 4 for each item sold. For example, if 5 hats at $1 have been sold, the numbers 1, 2, 3, 4, and 5 will be crossed out in the space opposite that on which the item had been entered. Deductions are considered in bulk and the total inventory figures adjusted accurately.

When the stock-taking has been finished, the sheets collected and properly accounted for, they are turned over to the office force, where they are examined to see that they have been made out properly and that none of the sheets are missing. They are then opened out and cut in halves along the folded line by a paper-cutting machine, the right-hand sheet being given to one operator, and the left-hand sheet to another. The sheets are then totaled and a machine-tape record of the sheet totals

made by both operators, a subtotal being taken of every 10 or 20 sheets as desired. The grand total of both sets of sheets must agree. If by any chance they do not agree, all subtotals are examined to localize the error, and then the mistake is localized still further to the individual sheets. When two sheets have been found which do not agree, the error will be found to be either in quantity or price. It is a comparatively simple matter to correct this error by having the stock in this particular draw or bin recounted. To determine what quantity should have been listed, or in case of a price error, the correct price can be easily ascertained from the tag.

By this method mistakes of the person who compares the first and second listings as well as mistakes in figuring are automatically caught. In addition, an overage or shortage of the previous period cannot be brought into the current period, because the present period was started with 100% accurate stock-taking. Extensions, additions, subtractions, and all kinds of figuring work is eliminated from the department taking stock and this work given over to expert operators who are qualified to do the work. By this blind check or double-checking system accuracy in the listing of quantities and prices as well as in the figuring of the sheets is insured.

Questions

1. What are the advantages and disadvantages of this system of stock-taking?

2. Would it be advisable for Mr. Hagar to adopt it for his store?

Stock 38

Whittier Brothers—Stock-Taking

In 1921 the largest department store in the East accomplished the feat of taking its entire inventory in six hours. The following instructions were issued previous to stock-taking:

INSTRUCTIONS TO DEPARTMENT MANAGERS AS TO STOCK-TAKING

Our semi-annual stock-taking will take place on the evening of Saturday, January 29, 1921. As usual, the stock is to be taken on the official inventory sheets, which are to be procured from the Office of the Controller.

Department Managers will see that under no circumstances are separate lists made preliminary to or during stock-taking. The official inventory sheets only are to be used. The expense of errors in copying from one sheet to another is too great to be compared with the small cost of the inventory sheets. *Please remember that stock sheets are cheaper than errors*, and that errors necessitate the retaking of inventories.

Reserve Stock

Inventory sheets will be distributed to the Department Managers as early as may be reasonably desired for the proper taking of Reserve Stock, but no forward stock may be listed before the bell rings on the evening of Saturday, January 29, 1921.

Sheets, on which is listed stock in reserve or anywhere outside of the space devoted to selling, must be marked accordingly.

Deduction Sheet

Whenever goods in reserve are taken to the counter after having been listed, a Deduction Sheet must be made up. When the necessity arises for Deduction Sheets, they should be specially requested at the Controller's Office by the Department Managers, and when the inventory is complete, signed by them and turned in with Stock Sheets. No sheet may be used for deductions unless stamped "Deduction Sheet" *by the office.*

Plan

At least one week before inventory, each Department Manager shall show to the Controller a rough frontview sketch of each fixture in his department. Each of these fixtures shall bear a number. Each vertical division in each fixture shall also bear a number, but each horizontal division shall be designated by a letter. On the day preceding the inventory, Stock Sheets shall be properly placed in the fixtures, and properly accounted for on the Tally Card provided. It is necessary that a Stock Sheet be placed in each subdivision of each

fixture whether each contains merchandise or not. Errors often occur because sheets are not properly placed in each fixture, and in consequence the Department Managers cannot be sure all sheets are collected at the conclusion of the inventory, nor that the inventory is complete.

Tally Card

A Tally Card will be found at the back of each pad of Stock Sheets. This Tally Card must carry a complete record of the whereabouts of each Stock Sheet before any listing is done. Care should be used in assigning a sufficient number of sheets to each subdivision so that when the inventory is complete the sheets may be taken up in consecutive order. Whenever it is necessary to place an additional sheet in a subdivision, note the number of the additional sheet in the column provided for remarks against the number of the sheet so supplemented. The number of the original sheet should be noted on the Tally Card against the supplemental number. When inventory is complete, and all sheets taken up, the sheets must be arranged in their numerical order, fastened together, and backed by the Tally Card. On each Tally Card must be indicated the number of the last sheet used.

Season Letters

Season Letters should be invariably printed, not written. You may "ditto" Season Letters or names, but under no condition may figures be "dittoed."

Perforated Strips

The perforated strips at the right side of each Stock Sheet must be left intact, and may not be written upon. If one of these strips becomes detached, notify the representative of the Controller's Office at once, but do not use the sheet. Department Managers are required to account for each Stock Sheet and perforated strip. *Soiled or torn sheets may not be destroyed, and sheets must be turned in whether used or not.*

First Seven Sheets

The first of the inventory sheets in each department should be marked "Repairs," and all stock goods out of the Department for repairs at the time the inventory is taken must be listed thereon. The second sheet must be marked, "Window Dresser"; the third sheet, "Foreign Office Samples"; the fourth, "Goods in Advertising Office"; the fifth, "Goods held in the Private Office"; the sixth, "Goods in the Department Manager's Own Office"; the seventh, "Goods in Comparison Department"; and on each of these sheets must be listed the merchandise out of the Department for the various reasons given. If there are no goods outside the Department, these seven sheets must be made out and marked "none" nevertheless, and signed by the Department Manager. If for any reason any stock is in any other place outside of the Department, separate sheets should be made out in each case.

Classification

If you are instructed to classify your stock, please see that separate classifications are listed on separate inventory sheets. Under no circumstances should any sheet contain more than one classification.

Please have your clerks mark the number and designation of each classification in the space on each sheet provided for same. Before the sheets are passed in you will please examine them and if any sheets do not bear the proper classifications you will please see that the omission is rectified.

Imported Stock

In all cases, Department Managers should see that *Imported and Domestic* stocks are separately listed. "Imported" means only such merchandise as is bought through our *Foreign Office.*

Prices

When writing prices, in the columns headed "Prices," care should be taken to place dollars in the dollar column and cents in the cent column. Always write two naughts in the cent column when there are no cents. A careful observance of these rules will obviate errors by the people who calculate your inventory, and errors in prices are disastrous.

Fractions

Always write fractions thus: ½ not 1/2. The people who calculate your inventory are not technically familiar with your merchandise. Write fractions in such a manner that anyone can decipher them.

Last Sheet Used

When the inventory is complete, the Department Managers or their assistants shall personally gather the sheets, see that there is a sheet from each section or subdivision and, upon scrutinizing each sheet, determine whether each section has been properly inventoried. A section here and there should be recounted to verify the original count, and the Department Manager or his assistant should initial such recounted sheets. The Department Manager must personally sign the *last sheet of each pad*, and when some sheets of a pad are not used, the Department Manager must sign the last sheet used and state that it is the "*last sheet used.*"

Bills

As a precautionary measure, all bills received between January 24 and January 29 will be stamped by the Receiving Department, "*Old Stock—New Stock*," and Department Managers must cross out the word "Old Stock" if the goods are not taken in the inventory, and if the goods covered by such bills have been taken in the inventory the words "New Stock" must be crossed out. Carelessness with bills often causes more re-takes than carelessness in taking the actual inventory. WATCH YOUR BILLS.

Questions

1. In what ways do these instructions facilitate stock-taking?
2. Point out the reason for each section of these instructions.
3. By whom should the actual work of stock-taking be done?
4. How should the work actually be done?
5. What checks should be used to avoid errors?
6. What information should be covered by inventory?
7. How should depreciation be handled in inventory?
8. What are the possible errors in the physical taking of inventory?
9. In case inventory is taken at retail and the book figure does not agree with the physical inventory, what are the possibilities of error that should be investigated?

G. STOCK SHORTAGES

Stock 39

F. A. Fanburn, Inc.—Causes of Stock Shortage

The department store operated by the firm of F. A. Fanburn, Inc., in one of the larger cities of Ohio, did a business last year of $3,107,164.24 after deducting returns and allowances to customers. The store's inventory at the close of last year was $436,645, and the purchases of merchandise during the year, not including freight, express, and cartage inward, totaled $2,203,429.58. The store for five years has been operating on the retail method of inventory. Its change from the cost method to the retail method five years ago is practically the only step which the store has taken in the direction of newer developments now being introduced into many large department stores. The store has a separate receiving room, where all merchandise is received, unpacked, and checked against the invoices. Marking is done by members of the selling force from the departments

for which the merchandise is intended. These salespeople go to the reserve stockroom in slack times to do the marking. Mark-downs are taken by the salespeople themselves in the department upon orders from the merchandise manager.

For the past two years the store has been experiencing some difficulty in operating the retail method because of the fact that at the end of the year stock shortages have shown up. These shortages have not been large enough to indicate any fundamental unsoundness in the method of operating the retail inventory, but have been large enough to be a source of anxiety.

Mr. Fanburn, who is an active charge of the store, decided that he would have to discover the causes of the shortages and eliminate them. His impression was that stock shortage troubles depend upon conditions that are peculiar to different stores and, hence, that the causes of shortages must differ considerably from store to store. Mr. Fanburn had two business friends, both operating department stores. One of these men had charge of the accounting, statistics, and merchandise control in a store in an eastern city, doing a business of between $5,000,000 and $6,000,000 a year. The other was at the head of a small department store whose sales averaged slightly under $1,000,000 a year. These men were considered unusually good managers, in touch with the most recent developments in matters of interest to department store controllers. Mr. Fanburn wrote to both these friends, asking them to outline for him the causes of stock shortages in their stores. He received in reply two lists of causes which are reproduced below.

The friend who was controller of the larger department store stated that in his experience the following causes had combined to bring about stock shortages:

SCHEDULE OF THE CAUSES OF INVENTORY SHORTAGES

I. *Physical Reasons for Shortages*
   - A. Order or Bill Section
     1. Failure of check on inward goods opened for samples or advertising cuts although without manufacturer's bill or Merchandise Department's order confirmation.
     2. Failure of check on memo goods outwards, to customer.
   - B. Receiving Section
     1. Lack of enclosure.
     2. Lack of ingress and egress control.

3. Lack of facilities, proper fixtures, etc., and of measuring machines.
4. Lack of trained permanent staff.
5. Leakage between Receiving Department Elevator and Receiving Section on account of open trucks.
6. Lack of "Blind Check."
7. Physical miscount, original shortage not detected, especially in gross lots and yardage, despite "Blind Check."
8. Bill errors in overstatement of quantities not found.
9. Local deliveries not checked through Receiving Department delivered unbilled in Merchandise Department direct, then overbilled without check.
10. Failure or delay to obtain buyers' check and signature in Receiving Section at specified hours.
11. Fatigue of employees on account of no work interchange.

C. Marking Room

1. Lack of separate enclosure.
2. Lack of ingress and egress control.
3. Lack of facilities, and necessity for proper tables without drawers, file, or pigeonhole.
4. Lack of permanent, stable, and trained staff.
5. Wrong ticketing.
6. Errors in re-marking merchandise returned by customers.
7. Errors in mark-up and mark-down ticketing.
8. Negligent, uncontrolled mark-down in Merchandise Departments instead of in Marking Room (except for bulk and piece goods)
9. Faulty mark-down of bulk and piece goods in Merchandise Departments without Marking Room and Audit Section control.
10. Fatigue of employees on account of lack of interchange in work.

D. Stockroom

1. Inadequate control of ingress and egress.
2. Lack of door and window control.
3. Inadequate facilities, mispacking, bunching. Shelves and bins too deep and high; inaccessible corners.
4. Loss of merchandise en route from Marking Room on account of open trucks, or messengers, via passenger elevators instead of inclosed, locked trucks via special (freight) elevators.

5. Failure to check merchandise in.
6. Wrong sorting, shelving, binding.
7. Wrong issue to merchandise departments.
8. Negligent stockkeeping.
9. Insufficient help in stockroom.

E. Sales Departments

1. Loss of merchandise enroute from Marking Room on acount of open trucks or messengers and clerks via passenger elevators.
2. Failure to check merchandise in and perpetual check on stock by department stock clerk.
3. Wrong sorting and binding.
4. Lacking, or inefficient and inadequate inspection by wrappers or inspectors of merchandise as to quantities, prices and description.
5. Loss of price tickets and selling by guess.
6. Mark-down taken after sale.
7. Mispricing of sale lots and remnants.
8. Loss and lack of economy in sample cutting off piece goods.
9. Inadequate facilities and mispacking.
10. Lack of control and inefficiency in handling merchandise returned by customers.
11. Leakages on account of lack of control on exchanges.
12. Deduction by salesperson of excess discount for merchandise paid for against cash register or certigraph receipts, and failure of salesperson to issue Retail Loss Slip, especially during large sales events.
13. Stealing of merchandise by employees.
14. Shoplifting.
15. Failure of floor control immediately after closing bell, till departments are vacated by customers and employees.
16. Incompetent supervision by Protection Section.
17. Lack of automatic window, staircase, and door control.

F. Delivery Section

1. Loss of merchandise enroute from sales departments or stockrooms.
2. Failure of re-count, especially of quantities, on outward goods.
3. Lack of check on requisition of additional merchandise in event of shortage in outward goods.

G. Audit Section

1. Inadequate audit control in Receiving, Marking Stock, Merchandise Sales, and Shipping Sections, especially before, during and immediately after large sales events and at time of large deliveries and mark-downs.
2. Lack of audit control over display, advertising, and shoppers' samples.

H. Inventory

1. Inadequate preparation for physical inventory.
2. Lack of order, supervision, and sufficient staff during inventory taking.
3. Errors and omissions in physical inventory taking.
4. Inventorying without price tickets; on guess or from stock records.
5. Omission of merchandise out on approval, if not charged.

II. *Clerical Reasons for Shortages*

A. Order or Bill Section

1. Lack of check and counter check on merchandise bills, for errors in calculation and additions.
2. Errors through duplication of merchandise bills by manufacturer or supplier.
3. Failure to tally deliveries from factory direct to customers, with charges made.
4. Error of double charge of Memorandum Bill: Entered once as definite purchase upon sale of goods, as per advice to manufacturer, and entered again on receipt of manufacturer's final sale bill.

B. Receiving Section

1. Returns to manufacturer not charged back or incorrectly charged back.
2. Failure to claim shortage or breakage against carriers.

C. Marking Room

1. Issue of wrong price tickets.
2. Error in price of dozens, pairs, or singles.
3. Errors due to variable marking of identical goods.

D. Stockroom

1. Faulty stock record keeping on reserve stock.
2. Mark-downs not taken care of correctly.
3. Mark-ups not booked correctly on reserve stocks.
4. Error in merchandise transfers of reserve stock between departments.

E. Sales Departments

1. Faulty stock record keeping on reserve stock.
2. Mark-downs not entered, or mark-down sheets lost, after authorization.
3. Incorrect or forgotten merchandise transfers between departments.
4. Stealing by employees, or by customers, through fraudulent refunds on account of inadequate control.
5. Faulty sales check system, making possible the error of cashier in stamping "Paid" on address part of Cash-Take check and its use by salesperson converting ticket into "Cash-Send Check" for stolen goods.
6. Faulty sales check (i.e., incorrectly perforated or used incorrectly, original for duplicate), making possible the insertion by salesperson of own or conspirator's address on address part of Cash-Take Check, converting it, after cashier's stamp is affixed, into Cash-Send Check for stolen goods.

F. Delivery Section

1. Lack of control on customers' own goods outwards, and inefficiency in handling customers' own goods.

G. Audit Section

1. Inadequate check and automatic cross check on all work.
2. Inadequate, fluctuating, or untrained force on account of undue economy in personnel.
3. Incorrect audit of sales and return checks.
4. Errors in mark-down records, price calculations and additions.
5. Failure to take mark-downs passed off stock totals.
6. Failure to keep proper record on lease department's purchases of other departments.
7. Errors or omissions in merchandise transfers between departments.

H. Inventory

1. Inventorying from faulty records of forward and reserve stocks.
2. Impractical inventory sheets.
3. Failure to recheck inventory calculations.

The second man, who was manager of the smaller department store, submitted a much shorter list of the causes of stock shortages in his establishment.

Inventory

1. Incorrect count of merchandise.
2. Incorrect pricing of merchandise.
3. Passing bills for merchandise not in stock.
4. Taking stock and not passing bills.

Merchandise

1. Wrong marking.
2. Failing to take mark-downs or markings.
3. Wrong amount of merchandise delivered to customer.

Bills and Transfers

1. Passing duplicate bills.
2. Wrong extensions.
3. Wrong retail or count on transfers.
4. Losing transfers or not making them.
5. Approving bill when there is a shortage in count.
6. Charging invoices to wrong departments in Invoice Book.
7. Failing to secure bill or credit from supplier.
8. Incorrect adding of mark-downs.
9. Losing employees' slips.
10. Crediting employees' slips to wrong department in Employees' Book.

Sales

1. Selling merchandise at price different from that marked.
2. Omitting to charge goods.
3. Adding cash sale wrong.
4. Losing charge tickets.
5. Giving customer wrong amount of credit.
6. Wrong use of employees' slips.
7. Theft.
8. Crediting saleslips to wrong department.
9. Crediting cash sales to wrong department.
10. Goods out on memo not taken in stock.

Questions

1. What causes from among those listed by his two correspondents could Mr. Fanburn expect to find in his store?

2. Why would he probably not find the others?

3. What other causes of stock shortages might Mr. Fanburn expect to find?

Stock 40

The Martel Department Store—Inspection for Stock Shortage

A continued stock shortage, for several years, of approximately 3% of the net sales in the Martel Department Store led to the taking of stringent measures. The managers were convinced that most of the stock shortages were due to carelessness in marking and tagging the merchandise. The stock shortage of the Martel store seemed to be more a book shortage than an actual physical shortage.

In order to reduce the number of errors made in marking and tagging the merchandise, the managers of the Martel store installed an inspection system. This system provided for an inspection of each department at least once during each week, at which time the invoice on which the buyer had recorded the mark-up would be compared with the specified goods. This was made possible by having the usual tag on each article of merchandise bear not only the price and lot numbers, but also the number of the invoice on which it had been received.

A young man who had spent about 18 months learning the department store routine was given charge of this inspection work. All errors in marking or tagging merchandise were listed on an inspection form, and after they had been brought to the attention of the controller, they were taken to the people responsible for making these mistakes, and each person was required to sign his initials as an acknowledgment of the mistake. At the end of the year it was found that the stock shortage of the Martel Department Store had been reduced to about one-half of one per cent.

The Ames Department Store, located in the same shopping district as the Martel store, has an annual stock shortage averaging 4.1%. Upon learning of the success of the Martel store in reducing its losses from this source, the managers of the Ames store considered installing the same system for inspecting their own departments. There is considerable doubt, however, whether the stock shortages of this store are due mainly to clerical errors. The executives are undecided, therefore, whether or not to install the system.

Question

What factors should the managers of the Ames Department Store take into consideration in deciding whether or not to establish an inspection system to curtail stock shortages?

STOCK 41

ALFRED BERRY & COMPANY—SHORTAGE IN THE GLOVE DEPARTMENT

Recently, Alfred Berry & Company, a department store, held a sale of gloves. There were 12,000 pairs in the lot. As many as possible of these were placed in open tills along the counter. In the two days that the sale lasted 600 pairs were lost.

An investigation was ordered by the president of the store. This job was assigned to the assistant controller, who reported, after careful study, that a shortage of no more than 100 pairs at the most could be accounted for by possible errors in the physical handling of stock or in the clerical work connected with the gloves from the time they were received up to the time they were placed on the counters. It was doubted, moreover, if a shortage of 100 pairs could be accounted for as the result of carelessness or mistakes either in the receiving and marking room or in the selling department.

The system of stock control employed by Alfred Berry & Company is considered one of the best in the city.

Question

1. Is there any way of avoiding a repetition of such losses in the glove department in future sales?

*NOTES FOR INSTRUCTOR.—In a subsequent sale, held in the store which furnished this problem, 24,000 pairs of gloves were sold by sample only. All were sold in two days and only 80 pairs were lost.

Stock 42

The Premier Stores Corporation—Stock Shortages in Chain Grocery Stores

The Premier Stores Corporation, operating in one of the large industrial districts of the Middle West, has 239 chain grocery stores scattered about in this district within a radius of 48 miles from the central office and warehouse. All stores are controlled from this office, day-to-day contact with store managers being secured through superintendents. Each of the superintendents has charge of from 15 to 24 stores. All purchasing is done by the chain buyers at the central office, and all goods are delivered to the stores from the central office, with the exception of a few small items which are delivered direct to stores by the producers; such items, however, are bought by the central office, although the orders may be given by the store managers.

All merchandise is debited to the stores at the retail price for which that merchandise is intended to be sold. Stores are subsequently credited with cash turned in, with goods returned to the warehouse, with goods broken or damaged, and with goods transferred to other stores. In case mark-ups or mark-downs are ordered by the management, each store is required to report an inventory of the goods marked up or marked down at the time the mark-up or mark-down takes effect. The store is then debited or credited on the merchandise ledger at the central office with the amount in dollars of this mark-up or mark-down. This amount in dollars is computed by multiplying the number of units of merchandise on hand by the change in unit price.

In billing out merchandise to the stores, quantities are adjusted to give what is called a tare allowance; for example, in billing sugar, allowance is made for the amount of sugar likely to be wasted and for that given in excess weight, because of the fact that in weighing sugar the salesperson invariably gives a trifle excess weight in order to make the scale bar go definitely past the desired point. It is considered that this and similar tare allowances provide against all possible contingencies causing shortages. In addition, a good many commodities gather moisture and thus increase in weight so that the store manager is able to weigh out more pounds than he is charged

with by the warehouse. In view of these facts, the management believes that unless there is some theft by either the manager or the public, the store should normally show a small overage in the physical inventory taken each month.

Questions

1. Is the management of the Premier Stores justified in believing that store managers should generally show a slight stock overage?
2. On what items other than sugar should the tare allowance be made?

PART VIII

BUYING PROBLEMS

PART VIII

BUYING PROBLEMS

"GOODS well bought are half sold" is a phrase often used It is not exactly true, however, because many problems arise between buying and selling, but it is correct in that it places a proper emphasis on buying problems.

To get the right goods, at the right time, at the right place, and at the right price, is the end to be attained by a buying organization in retailing. The varied nature of the problems which result from this effort has led to the development of highly specialized buying organizations within retail stores.

Buyers, as a group, are among the highest paid employees in retailing. A good buyer can buy better merchandise for the same money, knows the best sources of goods and materials, can often secure more prompt deliveries or bigger discounts, and because of these advantages can demand a salary in excess of a poor or untrained buyer. Competition between stores in obtaining the services of the best buyers has resulted in higher pay.

Such a situation tends to show that the buying process in retailing is still one of individual ability rather than standardized thought and organization. The time is undoubtedly coming, and soon, when the buying functions and processes will of necessity become more standardized. One can even see such a movement today. Discounts are becoming set, the most reliable sources have but one price, and the manufacturers are so describing their wares that the services of an expert are not needed to insure quality in merchandise. As the selling of the producers improves, the buying problems of retailing decrease.

The section on buying has been classified as follows:

A. Organization	D. Methods
B. Plans	E. Terms and Discounts
C. Sources	F. Other Buying Problems

A. ORGANIZATION

Buying 1

John F. Wendt and Company—Controlling Buyers for a Grocery Chain

The chain of grocery stores owned by John F. Wendt and Company operates from warehouses in four of the larger cities in the northern Mississippi valley. It has a total of slightly less than 1,200 stores, of which 413 are in the district controlled from the warehouse in the largest of the four cities. The remaining stores are distributed in approximately equal numbers among the other three cities.

In the organization of the company practically all buying is done by the purchasing department located in the main office in the largest city. Each of the three smaller warehouses has a buyer whose chief work is supplying his warehouse with merchandise pending the arrival of the larger shipments made direct to that warehouse from manufacturers or producers in accord with the orders given at the main office. The company provides no method of controlling the buyers either at the main office or at the branch warehouses, but leaves to their discretion the amount of merchandise which they shall purchase and the time at which they shall purchase it.

The work of the buyers at the three branch warehouses is of so uncertain a nature that the home office does not consider any method of control necessary. It believes that exceptions to any rules which might be laid down would be so numerous and so frequent that the rules would be more a hindrance than a help to the smooth working of the organization.

In the buying done at the home office, which was approximately 95% of the buying done by the chain, no method of controlling amounts was used up to the fall of 1921. At that time the company had been in operation some eight or nine years, but its largest growth had been in the last four years of these eight or nine. In the period during which growth was most rapid prices had been rising; hence these two factors; that is, growth of the chain and increase in prices had made it easier and relatively safe to do without any control of purchases.

In the 12 months preceding the decline in prices, which began early in the summer of 1920, the store found it necessary to watch purchases more closely in order to avoid large losses from decline in the prices of goods held in the warehouse. Accordingly, the head buyer worked out a method of budgeting each of the buyers subordinate to him. There were seven of these men as follows:

1. The produce buyer, in charge of purchases of fruits and dried vegetables.
2. The butter buyer, in charge of purchases of butter, oleomargarine, eggs, and cheese.
3. The coffee buyer, in charge of buying coffee, tea, and spices.
4. The staple goods buyer, in whose field came sugar, flour, rice, and similar items.
5. The canned goods buyer, who supplied the company's needs in canned vegetables, fruits, and fish, and the dried fruits.
6. The grocery buyer, who purchased soaps, canned milk, cookies and crackers and such miscellaneous grocery items as laundry supplies, jelly powders, cereals, package flours, and yeast.
7. The miscellaneous buyer who bought pickles, olives, catsups, and fancy or imported products.

According to the head buyer's plan each of these buyers would be assigned a weekly quota, which would be an amount of money equal to the estimated cost of the merchandise in that buyer's lines sold in the chain during the preceding week. At the time this scheme was evolved the management was receiving a weekly report giving the total sales for the chain at retail. In addition, the management had designated 300 stores from which more detailed statistics were gathered. These stores were carefully selected and were considered representative of the stores of the chain. From the combined figures gathered from these 300 stores the accounting department computed weekly the percentage of mark-up (gross profit) and the proportion of sales in each buyer's lines to total sales. These figures were considered as safe approximations for the percentages of mark-up (gross profit) and the distribution of sales among the various commodities for the chain. Using the percentage of mark-up in the 300 stores and the total sales for the chain at retail, the accounting department, according to the head buyer's plan, was to estimate the cost of goods sold for the

chain. This amount would then be apportioned among the various commodities in accordance with the other set of percentages computed from the statistics of the 300 stores. Thus the accounting department would arrive at an estimated figure for the cost of goods sold in each buyer's lines the preceding week. This figure, according to the head buyer's plan, was to be the limit which the subordinate buyer in his purchasing during the week would not exceed without the permission of the head buyer.

Questions

1. Should this method of controlling buyers have been adopted?
2. If not, what system should have been used?

Buying 2

United Grocery Company—Limitation of Store Manager Buying

The United Grocery Company is now operating a chain of 600 grocery stores. The corporation was formed by a group of business men in 1910. It took over a number of stores in a western city by purchase in the first year and then as its resources increased the chain opened new stores of its own, expanding more rapidly as time went on. At present the chain owns 292 stores in and near this city. All these stores are supplied with merchandise by motor truck from the warehouse in the wholesale district.

In 1914 the United Grocery Company began its activities in another large city by purchasing a chain of 7 stores. This chain was later expanded until now the company operates 174 stores within 45 miles of the city hall in that city.

Four years after beginning business in this district the company decided to open another series of stores in the central part of another state, using the capital as a warehouse and office city. In starting this new chain, the company did not follow

the policy of buying stores or small chains, which it had used in beginning operations in the first two districts. Rather, it decided to start on a large scale, opening a warehouse and 25 stores simultaneously and increasing the number of stores to 50 in the course of the first four months. The stores supplied from the center of the third district now number 134. They are slightly more scattered than those located near the first two cities because of the fact that the territory about the third city is less densely settled. Some stores are so isolated that it is more economical to make deliveries by freight than by motor truck.

In general, the stores are visited daily by superintendents. In the third district, however, some stores are so scattered that the superintendents find it inexpedient to make visits more often than every third or fourth day.

When the business was first established, all major buying was done by buyers from the offices of the chain. Later buyers in the other two office cities bought independently. Store managers were allowed to make small purchases, especially in such lines as those carried by the National Biscuit Company, and in some cases dry vegetables, oranges, lemons, and bananas. When such commodities were bought directly by the store managers, they paid cash and received receipts from the sellers. These receipts were audited by the store superintendents when they made their regular visits to the stores.

This policy has been followed in controlling the purchasing by store managers in all of the stores, in the first and third centers and in all the stores operated from the second city with the exception of the original seven. In these seven stores, which, it will be recalled, were purchased as a chain when the United Grocery Company first entered the second field, the managers had been allowed considerable latitude in purchasing. The former owner of the chain had supervised the stores himself, calling on each one at least once a day, and since he knew all the managers well, he usually had permitted them to run the stores much as they would had they been the owners. When the United Grocery Company took over the control of these seven stores, it did not find it expedient to discharge these seven managers; it would have been impossible to keep them if they had been deprived of the authority they had enjoyed under the old management.

By the summer of 1921 the chain had become so large that the president became convinced of the necessity of a greater degree of centralized control and a curtailment of the authority of the store managers. He believed that it might be wise to issue an order prohibiting the store managers from buying any goods whatever for the account of the chain and to require them to secure all their goods from the warehouse of the chain, or upon orders from the central offices. Certain things he knew could not be supplied from the warehouse in all cases. Emergencies would come up when a store would find itself out of an item and when there would not be time for the superintendent in charge of that store to bring a stock from some other store in the chain. In this and similar emergencies the president's new scheme was to require that the purchases be made by the superintendents. These emergency orders would normally cover such items as eggs, butter, lard, bacon, pork, oranges, lemons, and potatoes. To prevent any misuse of power, the superintendent might be limited to $100 in his purchasing; that is, any superintendent would be allowed to make purchases up to $100 without making a report of them to the purchasing office.

Such commodities as those sold by the National Biscuit Company, or the Loose-Wiles Buicuit Company, would be bought by the regular chain buyer; or at least the matters of prices and terms would be arranged by him. Just what items would be carried in the individual stores would be left to the discretion of the store manager, but ordinarily he would be limited to 25 or 30 varieties. Under such an arrangement the store managers would be limited to the giving of orders, and though the merchandise might not actually pass through the chain's warehouse the transaction would be controlled by the warehouse officials.

Questions

1. Should the president have recommended the adoption of this plan by the Board of Directors?

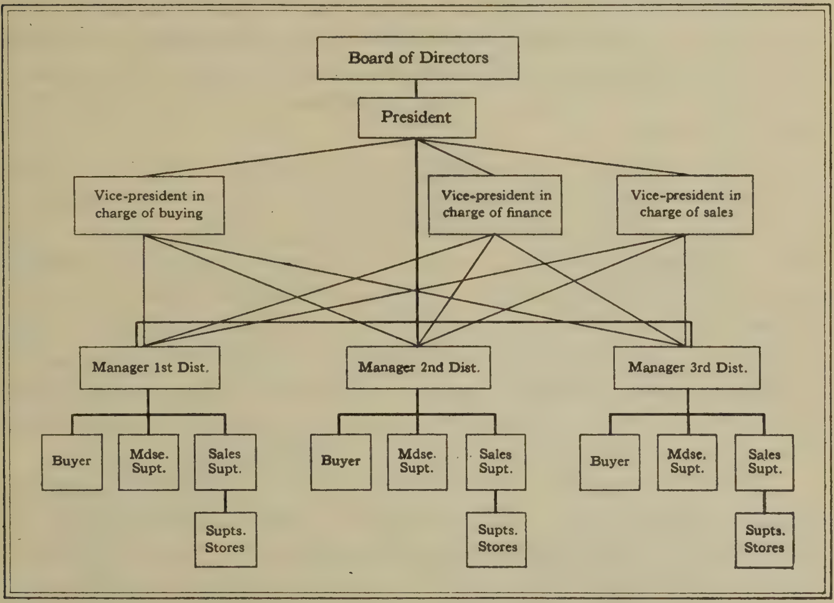
2. If so, what details should have been added to complete it?

Buying 3

The United Grocery Company—Methods of Buying in a Chain Grocery Store

The history of the development of the United Grocery Company as outlined in the preceding problem makes clear the reasons why the chain developed into what was more nearly a unification of three independent chains than one large chain.

At present, buying is controlled by a vice-president, with an office at the first warehouse, who acts as supervisor of the work of the buyers at the various warehouses. Subject to the general supervision of the vice-president there are three buyers, one at each of the office centers. Instructions for these buyers come through the offices of their respective district managers, and they in turn communicate with the assistant buyers subordinate to them. The relationship is shown in the following form:



FORM No. 77. The United Grocery Company—Buying Control Chart

The management has been attempting to introduce as far as possible the policy of buying goods at the source in order to eliminate jobbers' profits. In some cases, however, especially

while the second and third chains had less than 100 stores each, and whenever stocks have been temporarily depleted, it has been necessary to make purchases in the local market. Shipments from the sources rarely come in less than carload lots. What importing the chain does is arranged for by the vice-president in general charge of buying. His office also looks after the arrangements for supplying merchandise manufactured by the chain or put out under its own brands.

The buying policy of the United Grocery Company may be made more clear by describing the methods used for several commodities. These methods are approximately the same whether the buying is done at the branch warehouse or in the office of the vice-president for the entire chain.

Lard is usually bought from a packer's local branch house, bids being secured from the representatives of the various packers. All shipments are made direct from the first warehouse to the warehouse needing the goods. After the bids have been submitted by representatives of the various packers, the buyer wires for confirmation of the prices stated in the bid he desires to accept. On receipt of this confirmation, shipping instructions are issued.

Branded staples are bought as needed. In rare cases the United Grocery Company will agree to sell a stipulated amount in a given time in order to secure a certain price. Such an arrangement, however, is not a contract. In buying branded staples the United Grocery Company is usually able to get the lowest jobbers' price, and in handling these lines it aims for high turnover. In the same class with the branded staples are such articles as soaps, baking powder, household articles, syrups and molasses. These articles are almost invariably bought direct from the manufacturers at the lowest jobbing prices.

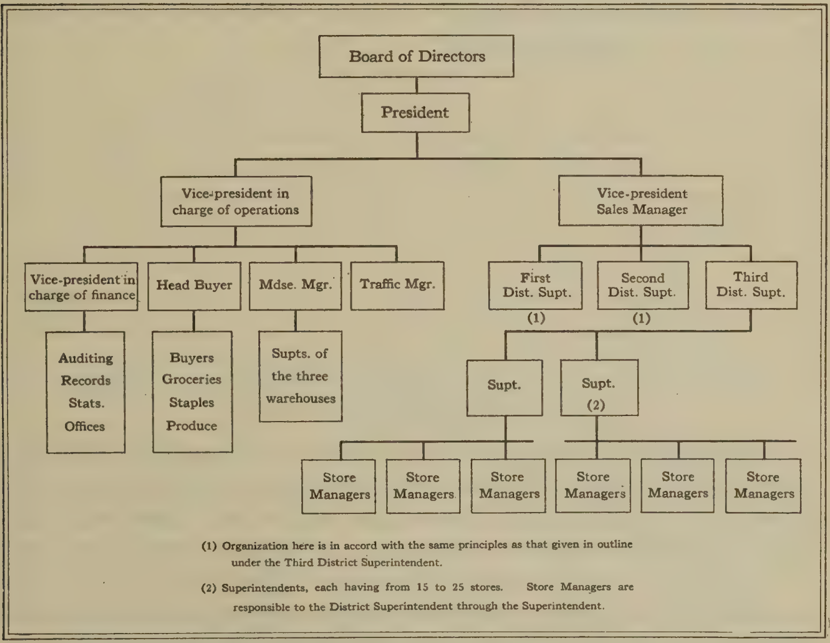
Dry fruits, canned goods, beans, and rice are bought through brokers representing the packers. These commodities are usually purchased as needed, storing being done by the packer.

In purchasing pickles, mustards, ketchups, jams, jellies, and similar lines, it is the custom to use contracts running for a period of six months or a year. These contracts assure the United Grocery Company of prompt delivery on receipt of its orders by the packer and place the packer in a position to anticipate the company's wants in purchasing supplies of raw

materials. In such agreements it is understood that the merchandise will be taken out by the United Grocery Company in approximately equal monthly instalments, but all deliveries are subject to the order of the United Grocery Company, and payment is made on each invoice as that invoice is submitted.

In all cases the buyers rarely leave their offices. Salesmen, representing produce men, brokers, or jobbers, call at the office and make the preliminary arrangements. These arrangements as a rule are subsequently confirmed by letter or by wire. This system provides a means of personal contact between the seller and the United Grocery Company's buyer, thus expediting the work of adjusting complaints.

Several of the officers in the company have come to the conclusion that buying could be done more economically and that better prices and terms could be secured if all buying were centralized in the general office at the first city. Their scheme involves the centralizing of the sales and financial management in the first office to a greater extent than has been the case in



FORM No. 78. United Grocery Company—New Centralized Buying Organization Chart

the past. These officials have devised a new organization chart (No. 78) which is reproduced on page 715:

This scheme sets the function of selling distinctly apart from the other functions of the business and gives the vice-president in charge of sales, or the sales manager, authority over the district superintendents, the superintendents, and the store managers. Under this plan a second vice-president, called the vice-president in charge of operations, would be given supervision of all functions other than selling. The head buyer under this vice-president in charge of operations would have offices in the general office in the first city and his staff of assistant buyers would be located there. All purchases would be made by these buyers, shipments coming for the most part direct to the warehouse where the merchandise is needed. At the various warehouses the warehouse superintendent would be given power to make small purchases in emergencies on telegraphic authorization from the head buyer.

Question

Should the United Grocery Company adopt this new method of buying and administration?

Buying 4

Jesse B. Aptell and Company—Routing of Orders in Chain Grocery Buying

The chain of grocery stores operated by Jesse B. Aptell and Company is supplied from two of the largest cities west of the Mississippi River. The company's stores are scattered along several railroad lines to the west of these two cities, and deliveries of merchandise to the stores from the warehouses are made by rail. The company has been in operation for about nine years, and its stores now number 410, somewhat more than one-half being supplied from one of the warehouses.

The buying is done from the company's general offices at the warehouse in the larger of the two cities mentioned, and incoming merchandise is directed to move to either one or the other of the two warehouses. In making purchases all orders must be in writing on the company's standard order blanks. These blanks are in quadruplicate, each copy having a distinct color. On its face each order bears a serial number, the date, the seller's name, the name of the buyer, the warehouse to which the goods are to be shipped, the freight routing, and the address to which the invoice must be sent. In addition, the order bears the following statement: "Specify on invoice our order number and car number. Bill of lading must accompany invoice except when draft is drawn. The seller agrees by accepting this order to furnish the buyer with information requested, and a signed guarantee that the goods comply with the requirements of the Federal Child Labor Law and all State and National Pure Food Laws."

The original order goes to the seller. The order is never given to a salesman, but is sent to the traffic manager's office for specifications as to packing and routing, and then is forwarded by mail to the seller. The order is mailed to the seller even in the case of goods bought at auction, such as California fruits. As a general rule, all orders must be confirmed by the seller before they become valid. The seller's copy of the order blank is not released by the buying office until this confirmation is received. Exception to this rule is made in emergency cases when the warehouse must have the goods at once. In such event the order is sent in without waiting for confirmation.

The duplicate of the order is sent to the accounts payable office, where it is filed pending the arrival of the invoice, and the receiving slip is made out in the receiving room when the merchandise arrives. Immediately on arrival the invoice is checked against the order. If the two correspond, the invoice is passed for payment. After the goods themselves have arrived, the receiving slip is made out and forwarded to the accounts payable office, where it is matched with the duplicate order and the invoice. All three must agree.

The third copy goes to the budgeting section of the financial office for use in planning the amount of money which will be needed from time to time for meeting accounts payable.

The fourth copy of the order is sent to the statistical department in order that proper entry may be made in the stock ledgers, in which there are maintained records by commodities of goods on order, goods in transit, goods received at the warehouse, and goods delivered from the warehouse to the stores.

The Aptell Company considers it important that orders go to the traffic department for routing before going to the seller; thus control of the routing of both incoming and outgoing shipments is obtained and the company secures unusual bargaining power with the carriers.

Closely allied to the problem of routing incoming shipments is that of dealing with demurrage and the handling of railway cars. Cases have frequently arisen where merchandise in a car in the Aptell company's yard has become listed as "Too long in transit" because it has been reported shipped by the seller and has not yet been received into the Aptell company's warehouse. To send a tracer after such goods would obviously be a waste. To prevent the needless sending of tracers and also to lessen demurrage charges, the company requires that a daily report be made to the general office of cars arriving, cars unloaded, and cars loaded. This report states the car initial, the car number, and its contents. At the bottom of this report a brief summary gives the following information:

1. Number of cars on hand at 7:00 a. m. yesterday
2. Number of cars on hand at 7:00 a. m. today
3. Number of cars on hand upon which free time of 48 hours has expired
4. Number of cars arriving
5. Number of cars unloaded
6. Number of cars loaded (warehouse)
7. Actual demurrage in dollars (team track)

Questions

1. Is Jesse B. Aptell and Company amply protected in the placing of orders?

2. Does the method in use entail too much system?

Buying 5

Prescott Department Store—McKay Department Store—How Much Power Should be Given the Buyer and the Merchandise Manager

For the purpose of controlling the functions of its store, the Prescott Company has installed a budget system wherever it is practicable. In the past it has been found that many of the buyers have been too optimistic, basing their purchases on what they hoped to accomplish rather than on past achievements and what they could reasonably expect to accomplish. In order to decrease the losses which this overbuying had caused, a budget system has been installed.

Under this plan the financial budget is made out by the controller six months in advance, at the beginning of each season. This budget uses the past year's record as a guide, although it is not necessarily limited by these records. The existing business conditions also are taken into account, as well as the probable increase in the sales volume of the store. This financial plan covers the amount of money which can be spent by any department within each month. As soon as it has been completed, it is sent to the merchandise manager, who makes any suggestions which his experience may dictate, after which it is returned to the controller for final approval. The buyer has but little to say in this matter, although the merchandise manager sometimes asks his advice in making his recommendations.

The advertising budget is also made out for six months in advance by the controller and advertising manager. This budget is based on the percentage of advertising which it has been found practicable to allow each department, and on the planned sales for the same period. The amount of money allowed for publicity purposes for any one month is then divided in half for each half of the month. This step was taken because it was found that buyers frequently had the tendency to spend all their advertising appropriation in the first week or two of each period and then either had to exceed the budget or cease advertising during the latter part of the month.

The merchandise plans, which are closely tied up with the financial budget, are also made out six months in advance.

These plans give the amount of sales it is expected each department will make during each month and the amount of stock that should be on hand at the end of each period. The buyer is not permitted to exceed this amount of stock without the approval of both the merchandise manager and the controller. Thus if the sales for one month should not equal the planned sales, there would be a greater amount of stock on hand at the end of the month, and the buyer would not be allowed to purchase as much merchandise for the next period as had previously been planned.

All mark-downs must be requisitioned by the buyer and approved by the merchandise manager before they can be put into effect. This ruling prevents the buyer from covering up his mistakes in purchasing goods by moving them out quickly with a big mark-down on which there is no profit, hoping to recover his losses by better luck on his next purchases. Special sales must be approved by the merchandise manager. This policy has been followed to insure coordination among the different departments in their advertising and sales campaigns. By having several allied departments schedule their sales at the same time, more customers are attracted and greater sales volume is insured.

Sometimes the merchandise manager accompanies a buyer on the latter's trips to New York, in order to become acquainted with the conditions in the market. On these trips he may advise his buyer as to the merchandise he should purchase and occasionally even helps him in selecting the goods. The shopping bureau is also under the direction of the merchandise manager and affords him a check on the quality and price of the merchandise which his departments are carrying as compared with the goods secured by the buyers of competitors. This scheme gives the merchandise manager a standing check on his buyers and provides for the continued supervision of these department heads.

In direct contrast with this plan, is the policy of the McKay Department Store, the managers of which are careful to hire the most capable buyers they can secure and then give them full responsibility for their departments. To insure success, buyers are usually promoted from the ranks, after they have spent a number of years in training in the store.

When an employee is promoted to the position of buyer, he is told that he will be held responsible for the amount of stock in his department, and for the profits at the end of the year. The directors of this company have been convinced that if a buyer is a good buyer he will keep his stocks in proportion to his sales without constant supervision by a merchandise manager. Therefore, they even permit a buyer to go into the New York market and "buy his head off," but he must be able to give a good reason to the merchandise manager for his action.

Likewise, all mark-downs are taken on the buyers' judgment without the O. K. of the merchandise manager. Since the buyer is responsible for the profits and stock of his department, the firm maintains that he should also have full responsibility for moving merchandise. Special leaders can be featured by the buyers without securing the approval of their superiors. In the case of special sales, however, the merchandise manager is always consulted. This is to insure proper coordination of the different departments and thereby securing the best use of all publicity efforts which are under the direction of the merchandise manager.

The merchandise manager in the McKay store is always a man who has come up through the ranks and thoroughly understands the problems which confront the buyers in his division. Consequently, he is capable of advising and assisting them in their work. All window displays, advertising, and other forms of publicity work are handled by assistants under his direction. This enables the merchandise manager to give his buyers assistance in case a department becomes overloaded with merchandise, or when the sales volume does not come up to expectations.

Question

What are the advantages and disadvantages of these two policies?

Buying 6

The Hackett Store—Organization of Foreign Buying Department

In connection with purchasing merchandise in France, Germany, and the other countries of Europe, the buyers of the Hackett Store have had considerable difficulty. Frequently the buyers have been unfamiliar with the sources of supply in the foreign cities and have been uncertain what merchandise they should secure. The trade papers have been their usual means of becoming acquainted with the latest fashions in these countries. In many instances they have not known the price which a manufacturer was justified in charging, and the situation is further complicated by the question of exchange rates. Furthermore, the buyers usually cannot speak the language of the people with whom they are dealing and consequently are at a disadvantage in bargaining for their merchandise.

Usually the buyers of the Hackett Store are compelled to depend upon the services of commissionnaires as interpreters to inform them of the proper price and latest style of the goods which they wish to buy, and to acquaint them with the sources of supply.

According to the statement of one of the executives of the Hackett Store, the commissionnaires in Germany, France, and most of the other European countries, are given fees for their services, not only by the buyer whom they assist, but also by the manufacturer from whom the purchases are made. The executive states that, as a result of this practice, a commissionnaire usually places the buyers in touch with only those firms which have promised the largest fee in proportion to the business given them. Naturally, this fee is added by the manufacturer to the price of the merchandise, and in a number of instances the buyers of the Hackett Store have been induced to purchase merchandise of mediocre quality and style at prices which should have secured the best goods on the market.

Several of the larger stores in the United States have attempted to remove this difficulty by establishing foreign buying offices in the principal market centers of Europe. Native agents have been secured to operate these offices on a strictly salary basis, and it is their duty to keep in touch with the

market conditions, to be able to advise the stores' buyers, and to have available for them all the necessary information as to price, style, quality, and sources of supply. In short, these foreign offices are established for the purpose of eliminating the services of the commissionnaire. The maintenance of a system of foreign offices is so expensive, however, that only the larger stores in the country can afford them.

A group of 14 stores located in various cities throughout the United States have joined together in organizing a foreign buying association which will establish branches in the principal European cities for the purpose of assisting the buyers of these stores in making their purchases. Each store has been asked to contribute $10,000 in order to furnish the initial amount of capital required to open up the offices. In order to operate efficiently in some of the German and French cities, it will be necessary for the association to purchase its own buildings. Since the laws of Germany prohibit the ownership of property by any corporation other than one formed in Germany, it will be necessary to incorporate the German branch of the association under the laws of the German government. It is expected that efficient service can be furnished the members of the association at a cost but slightly greater than the aggregate amount of the fees now paid by the buyers to commissionnaires. Each store must pay a proportion of the operating expenses based upon the total amount of its purchases.

The Hackett Store has been asked to join this association. Since foreign merchandise represents but 16% of its total sales volume of approximately $9,000,000, the directors of this store are uncertain as to the advisability of joining the association.

Question

What steps should the directors of the Hackett Store take in order to assist their buyers to overcome the difficulties of purchasing foreign merchandise?

Buying 7

Universal Shoe Company—Purchase of Supplies

The Universal Shoe Company operates 21 stores in 5 different states.

This company has an annual sales volume of $1,235,000 and caters to a medium class of trade.

These stores carry men's, women's, and children's shoes of conservative models and attempts to make a distinct price appeal.

As these stores are distributed at a considerable distance from the central warehouse, the express charges on cleaning powders, brooms, brushes, squeegees, and sweeping compounds would exceed any saving made by centralized purchase. In the past it was also found that the branch store managers were often careless in not ordering these supplies from the central warehouse before their stock had been exhausted and store windows and other equipment were left in an unsightly condition while waiting for the shipment from the central warehouse. For these reasons, it has been the policy of the company to permit the store managers to buy cleaning supplies in amounts not exceeding $5. It has been found, however, that these store managers often purchase goods for which there is but little use. For example, several of these men were visited by a clever traveling salesman who induced them to purchase a barrel of sweeping compound for use on linoleum-covered floors, which should have been cleaned with soap and water rather than with the greasy sweeping mixture. Moreover, this compound contained so much oil that it frequently damaged the rugs when carelessly used. Brooms were sometimes purchased and discarded before being worn out. New brands of cleaning compound were frequently bought only to be thrown away after being partially used. The purchases of cleaning materials were often made at the highest prices from high-class grocery stores, rather than from wholesale dealers.

Question

What methods should be used to prevent the waste resulting from the present method of handling supplies?

Buying 8

The Collins Specialty Store—Centralized Purchase of Supplies

For over 14 years a purchasing agent bought all supplies for the Collins Specialty Store. This man, however, kept no record of the cost of each article purchased, with the result that he might pay a low price one time and a high price the next. When bills were paid on the 20th of each month the amounts were entered in the supply ledger, and the supplies which had been charged out to each department were entered against it. In many instances, however, supplies were issued without being charged in the supply ledger, and, consequently, at the end of the year when the physical inventory was taken it frequently was necessary to write off as much as $2,000 worth of supplies.

To remedy this difficulty the controller had a balance of stores system installed which was based on the Taylor System used in several industrial plants. He also instituted a locked storeroom and laid down the rule that no supplies could be issued except on a written requisition. This system, however, has been expensive to operate, and the controller is anxious to secure a substitute.

The new plan proposed retains the locked storeroom and requires that no supplies be issued except on requisition, but it does away with the balance of stores sheets. Instead of having a sheet for each article in the storeroom, with columns showing the amounts ordered, on hand, issued, and apportioned, one sheet is kept for each department. When the storekeeper issues supplies on a requisition she charges the amount against the department receiving them. Twine and wrapping paper issued to bundle desks where they may be used by several departments are prorated to these departments on the basis of sales. Supplies sent to the receiving and marking room and the shipping room, or used by the cleaning force, are charged to miscellaneous. At the end of each month the totals of each sheet are taken off and sent to the office, where the proper amounts are charged to each department in the supply ledger.

If supplies needed are not in the storeroom, a requisition must be made out on the purchasing agent, who buys outright all amounts under $10. If the amount is over $10, however, the

requisition must be approved by the controller before the supplies can be bought. All orders for office forms, sales books, and the like must also be approved by the controller in order to give him an opportunity to eliminate obsolete forms and to make any changes necessary.

When the bills were paid under the old system it was found that the purchasing agent had been buying the same articles at different prices. In order to give him some basis on which to judge the prices quoted him, it is proposed to enter on the requisition when it is approved by the controller the price on the last lot of this article ordered and the source from which it was secured. In this way it is hoped to cut down the amount spent for supplies by assisting the purchasing agent to secure the lowest prices.

Question

Would it be advisable for the Collins Specialty Store to adopt the proposed plan?

Buying 9

W. W. Barrington & Company—Centralized vs. Decentralized Buying

W. W. Barrington & Company has a department store in which the annual sales are from \$9,000,000 to \$11,000,000 a year in one of the larger cities within 300 miles of New York. The store has been in operation for 12 years and during all these 12 years the volume of sales has shown steady growth. It has recently erected a new building, large enough to provide for present needs and for the expansion planned to take place in the course of the next 10 years. The store makes a specialty of its ready-to-wear clothing for men, women, and children and of its furniture, rugs, and house furnishings. There are no leased departments.

At present the store's organization is headed by a president and he has reporting to him four vice presidents, one in charge of merchandising, one in charge of publicity, one in charge of accounting and finance, and one in charge of personnel, plant and services. The vice-president in charge of publicity has the final word with regard to what merchandise may be advertised. In actual practise little conflict arises between these two vice-presidents, for the *esprit de corps* in the store is extraordinarily good. The vice-president in charge of advertising finds it possible to protect the good will of the store and to avoid objectionable advertising without hampering in any way the work of the vice-president in charge of merchandising.

Mr. W. W. Barrington, the founder of the business and still in active charge as president, believes that in the department store business the emphasis is gradually being shifted from buying to selling. When Mr. Barrington first went into the department store business, merchandise men were chiefly concerned with getting goods at rock-bottom prices. They assumed that if the goods were bought right, little effort was required to sell them. That seemed to be the general attitude of store owners and managers in the trade. As time went on, however, the number of department stores increased more rapidly than the population. The existing stores, by developing delivery service, mail-order business, and by the improvement in methods of suburban transportation, were able to expand the area of their operations. Thus a time soon came when there were no new fields to be exploited and when stores found it necessary to compete with each other for business which might come their way. This led to a gradually increasing emphasis of sales and sales promotion and in Mr. Barrington's store this emphasis was secured largely through the new vice-president in charge of publicity. Better sales effort was obtained by educating the buyers, who were practically sovereign in each department, to sell carefully as well as to buy carefully.

In spite of his years, Mr. Barrington was progressive and alert, and in studying department stores and in thinking along the lines just indicated, he began to wonder whether it would not be better in his store to centralize the buying in one department or one division of store work, around a vice-president in charge of buying, and to centralize the selling around a second

vice-president in charge of selling, perhaps placing the publicity department in charge of an assistant to this vice-president in charge of selling. Mr. Barrington's thoughts along this line were stimulated by the report that a large store in Europe had adopted such a plan. He was, however, unable to get any details regarding the changes which that store had made, or the success which had attended the changes. He also heard reports that several of the large department stores in the cities on the Pacific coast were contemplating making changes similar to those suggested above.

Mr. Barrington concluded that he could do nothing without definite information about the changes which had been made by other stores and the results of these experiments. In seeking for such cases he learned of a store similar to his own in size and in problems which had, a few years previously, bought a controlling interest in two other department stores of a similar size in the city in which it was located. Having purchased the majority of the stock in these two competing stores, the store in question proceeded to organize a buying department in which was centralized all purchasing for the three stores. This buying department was given offices in a building separate from all three stores, about one and a half blocks from the nearest store. Here buyers for all three stores had their offices. Their duty was to buy and to buy only. They were not responsible for selling merchandise and had no authority over the selling of the merchandise. They were not held responsible in any way for the profits earned. In each of the three stores a merchandise manager was in general charge. He directed the buyers, telling them what merchandise was needed and in what quantities, and he directed the selling forces through a military organization of sectional merchandise managers, floor managers, and salespeople. These merchandise managers were responsible for profits and for the general operation of the stores. The members of the selling organization told the buyers what merchandise was needed and the approximate selling price. It was then the task of the buyers to get the best merchandise they could obtain which corresponded with those specifications. The buyers usually visited the stores once or twice a week. In many cases they were in the market from Monday to Friday inclusive.

In the stores the floor managers were responsible only for the morale, for the appearance of the floor, and for adjustments, charges, and the like. An assistant buyer was in charge of the selling in each department. His position in the organization chart would have been hard to define. He reported to the merchandise manager of the store in all matters pertaining to selling; yet he was, more than anyone else in the store organization, the lieutenant and the observer for the buyer.

This organization was in operation for some three or four years, being apparently successful during that time. At the end of three or four years, however, the controlling company became involved in financial difficulties which forced it to sell out its interest in the two competing stores in which it had purchased the controlling shares and to curtail greatly the operations of its own store. In the merchandise circles of the city it was considered that the failure was due largely to what competitors considered revolutionary ideas with regard to buying, selling, and organization in general.

Mr. Barrington also got in touch with one of the older merchants in New York, a man who had always been known for his progressiveness. In reply to questions with regard to the advisability of separating buying and selling, the New York merchant replied that in his opinion the time might come when separate buying would be feasible. For the present, however, he said that it seemed to him that it would be best for the buyers to keep in close touch with selling. He felt that, if possible, it would be advisable to have the buyers in actual contact with customers, although the nature of their work made this practically impossible. He believed that the next best thing was to have the buyer in as close contact as possible with the people actually selling merchandise. Mr. Barrington asked him if sufficient contact with selling and with demand could not be secured by statistics. The New York man replied that sufficient contact probably could be secured by statistics, but that in the present stage of development it did not seem to him that it would be practicable to secure the needed contact in that way. A buyer in actual physical contact with selling in the department would be able, he said, to sense changes in the demand for sizes and colors almost automatically. In no statistical system which he had seen to date, the New York

merchant said, had any attempt been made to analyze the data to anything like this degree of refinement. Therefore, he reasoned that to get the same degree of merchandising accuracy by means of statistics, it would be necessary to have much more detailed statistics than are now being gathered. He reasoned that office and overhead expenses in department stores at present are, if anything, too high and that stores would not be justified in increasing this expenditure by adding larger statistical forces and more detailed statistical systems. The New York man concluded his case against statistical contact by saying: "Buyers do not like statistics. There seems to be something in the buyers' make-up which makes statistics repugnant to them, and therefore it is necessary to accompany each statistical report to the buyers with a sales talk. This fact makes it rather difficult to deal with buyers through figures."

Mr. Barrington asked his New York friend if there were any problems peculiar to Pacific Coast stores which would make it advisable for them to separate buying and selling. The reply was that, by and large, the Pacific Coast had the same problems as the eastern stores. In the West, however, the ground is not covered so thoroughly by manufacturers as it is in the East, where new things are continually cropping up and where lines and styles are varying constantly. The Coast buyer tends to purchase larger quantities of a given number and to sell that same number for a longer period. In addition, in the West there is not the same insistent demand for novelties that there is in the East and as a result the stores can deal more in staple goods. For these reasons separate buying might possibly, he said, be more practicable on the Pacific Coast than east of Chicago.

With regard to the difference between European department stores and stores in the United States, the New York merchant pointed out that a separate buying organization might be justified in Europe by the fact that buyers there have more markets to visit and that, hence, buying is a more difficult and more technical task than it is in the United States, where practically all manufacturers have agencies in New York. For smaller stores, which do not consider New York as their market, western cities play a role similar to that of New York. For example, the buyers from large department stores can go to New York for practically all their needs. Buyers from smaller stores can

go to Cleveland, Chicago, Minneapolis, St. Louis, or Dallas and there satisfy practically all their needs. The European buyer, on the other hand, has English, Swiss, German, Belgian, and perhaps Italian markets to visit.

The old New York merchant summed up his talk with Mr. Barrington by saying that after all is said and done the buyer has invested the firm's money in merchandise and that he should be held responsible for that investment. How, he asked, could that responsibility be secured if a separate organization were responsible for selling the merchandise? It would be much better he said to subdivide more minutely on what might be called a horizontal basis, thus establishing a larger number of buyers, each of whom would have charge of both buying and selling in a very small class of merchandise, than it would be to secure greater refinement in organization by dividing the buying and selling organizations vertically.

Questions

1. What conclusion should Mr. Barrington draw from the failure of the experiment in the eastern city which was first described?
2. Were the New York merchant's conclusions sound?
3. What should be Mr. Barrington's attitude toward suggestions that W. W. Barrington & Company make changes in its organization in the direction of centralized buying?
4. Should Mr. Barrington adopt any such suggestions?

B. PLANS

Buying 10

Apex Grocery Store—Merchandise Policy for Grocery Store

The increase in the number of nationally advertised brands of food products has changed to a certain extent the buying problem of the average grocery store, since its clientele has been educated to ask not only for a certain commodity, but for a particular brand of that commodity as well.

The Apex Grocery Store, doing an annual business of nearly $130,000 in a small Massachusetts city, had been led to enlarge its stock of groceries partly because of the great increase in the advertising of food products. Not only must the proprietor of this store carry more brands of canned goods, but also he must carry a larger stock of each brand, because each company puts out more varieties of products than formerly. The situation has become even more complex inasmuch as many wholesalers have been following the lead of manufacturers by establishing their own private brands. Now that a number of the various fruit growers' associations have branded their products and have begun national advertising campaigns, the Apex Grocery Store is carrying a somewhat larger line of highly perishable products than formerly.

This store now carries the following branded lines of food products:

Beechnut	(full line)
Heinz products	(full line)
Armour & Co. products	(partial line)
Libby, McNeill & Libby	(partial line)
Hunt brand	(full line)
Curtis Bros.	(partial line)
Sunshine Biscuit	(full line)
National Biscuit	(full line)

The Apex Grocery Store carries the following lines of bread:

Hathaway's	(5 kinds)
Bond	(2 kinds)
Reed's	(3 kinds)

The following cereals and breakfast foods are kept in stock:

Shredded Wheat	Kellogg's Corn Flakes
Post Toasties	Quaker Flakes
Force	Grape Nuts
Krumbles	Kellogg's Krumbled Bran
Cream of Wheat	Quaker Oats
Wheatena	One-Minute Cereal
Pettijohn's	Malt Breakfast Food
Puffed Rice	Puffed Wheat

This store also carries:

3 brands of household ammonia
4 brands of soap
6 brands of cleaning and washing powder
2 brands of sugar
7 brands of flour
4 brands of pastry preparations
3 brands of baking powder

In addition, various package goods of lesser importance are carried.

Mr. Barron, the proprietor, finds that his rate of stock-turn has been decreasing slightly for the last six years. He attributes this partly to the increasing amount of branded goods which he has in stock. It is probably true that this increase in the number of brands carried would not slow up the rate of stock-turn appreciably if Mr. Barron purchased such merchandise in small quantities; but if he bought in small quantities, he would not be able to secure the quantity discounts offered by a number of manufacturers and wholesalers. Since competition is very keen in the grocery business, he feels that any different buying policy would appreciably reduce the amount of his profits.

Question

What suggestions might be made to Mr. Barron for meeting this situation?

Buying 11

Mandell-Mallory Company—Buying Goods Sold in More than One Department

The department store of the Mandell-Mallory Company is one of the large stores in a large western city. Its list of departments is as complete as that found in most stores of cities of its size, and the assortment of merchandise in the various departments is unusually complete. The store has always tried to avoid unnecessary duplication of merchandise in the various departments.

There has been no objection, however, to carrying merchandise manufactured by or purchased from the same resource in more than one department. For example, sweaters are carried by the sporting goods departments, the men's furnishing departments, the boys' furnishing department, the children's department, and the ladies' sweater department. For several years after sweaters were carried in all these departments, each buyer made his purchases separately; and hence the orders of each department were relatively small.

There was also a tendency to scatter the purchases among a large number of resources. The management argued that in each department's purchasing there should be one or two resources from which practically 75% of the goods in any one line should be purchased, in order that the volume of business with the resources might be sufficient to secure favorable discounts and in order that there might be created between the store and their source a feeling of good will and permanent relationship. The arrangement by which the various buyers were working independently seemed to be contrary to this general practice. Hence the store decided that in the purchasing of sweaters and all similar lines carried in more than one department, the buyer of the department buying the largest amount of goods in that line should govern the purchasing of all the buyers in the matter of price and terms, as well as in the matter of general policy and resouces.

Within the limits prescribed by this governing buyer, each buyer in the departments taking smaller quantities of goods in that particular line would select styles, quantities, and qualities in accord with his own judgment.

Questions

1. Was the store justified in believing that this new plan would work successfully?
2. Should each buyer have been allowed to make his purchases independently?

Buying 12

Arlo Breckenridge & Co.—Purchasing Policy for Hosiery Department

In June, 1921, hosiery buyers throughout the United States found it practically impossible to secure deliveries on any style numbers of ladies' full-fashioned silk hosiery. There had been a strike in the industry for about six months, and the matters at issue were particularly difficult of adjustment. It was not a mere matter of wages. The workers were demanding that no apprentices be started in the industry for two years. The stocks of full-fashioned silk hosiery in the hands of the mills had long since been exhausted, and such mills as were operating with non-union labor had sold out their production for months to come. The jobbers and wholesalers also were practically out of full-fashioned silk hosiery. Buyers were placing orders greatly in excess of their requirements, knowing that they would be allotted only a small percentage of their orders and feeling that if they enlarged the orders enough they might thus get almost the amount of hosiery they desired.

The buyer in the hosiery department of Arlo Breckenridge & Co., a store located in an Ohio manufacturing town of about 200,000 population, found himself in no better position than the other buyers in the trade. Sales of full-fashioned silk hosiery in 1920 had been approximately 30% of the total sales for the department. The demand of his customers for full-fashioned silk hosiery seemed unabated. His stocks in black, white, and tan, and in the popular sizes, were practically exhausted. The

situation in general in his department is shown by the following statistics on the hosiery department sheet.

		Feb.	Mar.	Apr.	May	June	July	Aug.	Season
Inventory*...	Est.	$13,200	$14,000	$15,250	$16,000	$16,000	$16,000	$14,400	......
	Act.	14,100	13,782	13,537	11,499	12,620	......	......	......
Purchases....	Est.	3,330	5,180	6,080	5,960	6,650	5,150	......	$32,35[illegible]
	Act.	4,550	6,040	4,966	8,544	......	......	......	......
Sales........	Est.	2,500	3,900	5,300	5,850	6,500	6,500	......	30,550
	Act.	4,766	6,180	6,958	7,394	......	......	......	......
Sales Cumulative.......	Est.	2,500	6,400	11,700	17,550	24,050	30,550	......	......
	Act.	4,766	10,946	17,904	25,298	......	......	......	......
Mark-Downs..	Est.	30	30	30	110	150	250	......	......
	Act.	102	86	45	29	......	......	......	......
Cost Sales** Dollar.....	Est.	66.0	66.0	66.0	66.0	66.0	66.0	......	66.0
	Act.	66.8	64.0	65.0	65.2	......	......	......	......

*As of first of month in each case. For example, "Feb." column is opening inventory for season and "Aug.," closing inventory for season.

**Computed by dividing cost of purchases for the month by retail of purchases for the month.

The store of Arlo Breckenridge & Co. did a business of $1,527,000 in 1920, about 5% of this being in the hosiery department. The store had 32 other departments including ready-to-wear for men, women, and children, dry goods, beauty parlor, and children's barber shop. The store handled no furniture or groceries.

Mr. Breckenridge up to this time had been cautioning the hosiery buyer not to overbuy, but had been permitting him to purchase all the full-fashioned silk hose that he could get for immediate delivery. Mr. Breckenridge had warned the buyer especially that he was running into grave danger if he placed large advance orders and then, having an opportunity to get merchandise for immediate delivery, took that opportunity and did not at the same time cancel the advance order. Mr. Breckenridge also was careful to warn the buyer against making purchases in full-fashioned silk hosiery that were out of proportion to the amount of business done in that particular kind of merchandise.

Question

What should have been Mr. Breckenridge's policy for the hosiery department in June, 1921?

Buying 13

Chrysler Specialty Store—Alterations

In securing merchandise to meet the demands of customers, buyers are sometimes required to make efforts beyond their usual routine duties. A certain style may cease to be a favorite, and special attempts must be made to secure other lines to finish out the season. Or a demand for foreign leather novelties, for example, may necessitate a special trip to Europe to obtain the most up-to-date designs of that merchandise.

The Chrysler Specialty Store is located in a large industrial city in the Middle West where it has a high-class clientele in women's ready-to-wear articles. French hand-made waists and silk underwear are purchased by a large proportion of the store's customers. This store makes a specialty of carrying women's evening gowns and afternoon dresses and prides itself on its large and complete assortment of hosiery.

On one occasion, there was a heavy demand for black silk hosiery and the Chrysler Specialty Store had placed large orders with the manufacturers of this line of merchandise, but because of a strike in the textile mills it was impossible to secure deliveries. The Chrysler Specialty Store had practically sold out its line of black silk hosiery in sizes, 9 to 10½ and it was uncertain how long the strike would last.

After considerable difficulty the hosiery buyer succeeded in locating a lot of high-grade white silk hosiery in the desired sizes. The demand, however, was for black silk stockings and, consequently, if this merchandise were purchased, it would have been necessary to send the stockings to a dye house, where the cost of the operation would have been greater than if it were done by the hosiery manufacturers.

In order to make a profit on this lot of hosiery, it would be necessary to increase the mark-up 10% because of the expense involved in dyeing the goods.

Questions

1. Should the Chrysler Specialty Store have purchased this lot of white silk hosiery?

2. If it were purchased, to what accounts should the added dyeing expense have been charged?

Buying 14

Peters & Peters—Computing Purchase Limits

In 1919 the Peters & Peters Department Store was in the midst of a period of rapid growth. In the three or four years just preceding 1919 the store's sales had increased from $400,000 a year to over $1,000,000 a year, and all indications were that the rate of growth would be maintained.

Previous to 1915 the store had operated with practically no use of statistics, and the buyers of the various departments relied almost entirely upon their own judgment. No "open-to-buy" or "purchase-limit" calculations were made even in the executive office, or by the heads of the various departments. With the increase in business, however, the management felt the need of some system whereby more control could be secured through figures and less responsibility left on the individual buyers. Accordingly, the merchandise manager devised the following method for calculating the seasonal purchase limit for each department. The figures are for the women's suits department.

Sales desired for the season	$30,550.00
Stock-turn desired for the season	2.0%
Average stock required (sales divided by stock-turn)	$15,275.00
Actual stock on hand at beginning of season	14,100.00
Difference	$ 1,175.00
Estimated sales for the season (add)	30,550.00
Total	$31,725.00
Estimated mark-downs for the season (add)	600.00
Retail of goods to be purchased	$32,325.00
Estimated cost of sales ratio (cost of purchases divided by retail purchases)	.66%
Cost of purchases, or purchase limit for season	$21,334.50

Questions

1. What assumptions are made in using this method?
   (*a*) Is it sound?
2. Whether the method is sound or unsound, is its use justified under the circumstances?

C. SOURCES

Buying 15

The Kirby Grocery Company—Control of Purchase by Store Manager from Sources

The Kirby Grocery Company operates 17 stores in the neighborhood of a Massachusetts city, with a yearly sales volume of $931,000. This chain permits the individual store managers to make purchases of fresh fruits and vegetables, as well as cleaning supplies. The bills for these articles are made out by the vendor and sent to the local store where they are paid by the manager. The vouchers are sent to the central office along with a daily cash report. The purpose of this system is to permit the store manager to have greater bargaining power in the selection of perishable products.

The Black and White chain of grocery stores covers the suburbs to the south of another Massachusetts city. This company operates 15 stores and its total sales are $718,000 a year. This chain has adopted the policy of permitting its store managers to buy fruits and vegetables, but only from certain designated dealers. The bills from these dealers are sent direct to the central office where they are checked against the notices of goods received, which are sent in by the store manager, and the vendor is paid by check, sent from the office of the treasurer.

The Kirby Grocery Company feels that its present system does not give as much control of the branch-store manager as it should. It is, furthermore, considering the adoption of the system in use by the Black and White Company.

Question

Should the Kirby Company adopt the policy used by the Black and White Company?

Buying 16

Eddy Grocery Company—Buying Sources for a Chain

For several years the Eddy Grocery Company has contracted with truck gardeners, mostly foreigners, for their produce. If the crops are large and the price goes down, these gardeners always hold the company to its contract. If the crops are small and the prices advance, the gardeners often fail to live up to their contract, either by refusing to deliver the produce specified or by sending in culls and unsatisfactory goods.

In buying on the open market the company would be able to take advantage of any drop in prices which might occur. If the open-market price advanced, however, the company, sometimes, would be at a disadvantage. The open market, moreover, is uncertain; one week it may be glutted with an oversupply of stock, while the next week supplies may be altogether inadequate.

This company operates 37 stores in a large city. All these stores are served from the central warehouse located on a railroad spur. Forty-two per cent of the out-of-town purchases are in carload lots, which are unloaded directly at the warehouse. Most of the other merchandise of this class is trucked from the freight house a mile away.

It has been suggested that the company should take over a wholesale produce business to serve not only its own chain, but other retail stores as well. This wholesale department would be able to draw on a larger territory for its products and thereby would make the chain stores less dependent upon local conditions.

Although the company has sufficient capital for this venture, the establishment of a wholesale department would require a large amount of money, needed for the expansion of the chain. The problems of management in such a business would be quite different from those in a chain of retail grocery stores. Inefficient management of the wholesale business might destroy the profits of the chain. It is also feared that if this step were taken, the company would be confronted with the same problems of securing produce as at present and with the additional difficulty of disposing of surplus products to other retailers.

Question

From what source should the Eddy Grocery Company purchase its perishable products?

Buying 17

Hagerty Grocery Company—From How Many Sources Should a Store Purchase Goods?

Although for the past seven years Mr. R. G. Hagerty has operated a retail grocery store in a prosperous city of approximately 15,000 population, he has not succeeded in securing any substantial amount of the town's business. Last year his total sales were about $83,000, but in the near future he hopes to secure a larger share of the business in his locality.

During the past year Mr. Hagerty's rate of stock-turn was 4.7; he took but little more than half his cash discounts; his gross profit was 18.2%; and his total expense, 15.1%. As he expresses it, his family "lives out of the store," but he keeps no record of the amount of groceries which they use. His present net worth statement is as follows:

Cash on hand	$ 641.92	Accounts Payable	$ 2,965.53
Accounts receivable	7,101.31	Bills payable	21,241.76
Merchandise Inventory	17,232.87	Balance	2,265.93
Equipment inventory	1,497.12	Total	$26,473.22
Total	$26,473.22		

Mr. Hagerty has been buying goods mainly from six wholesalers with scattered purchases from others. Since he owes money to all six of these houses he hesitates to send in orders for more merchandise, although he needs new groceries to round out and freshen up his stock.

He has just been called on by a salesman for a competing wholesaler from whom Mr. Hagerty has never purchased goods. This house is just breaking into this territory and being anxious to secure Mr. Hagerty's orders it is willing to extend him a line of credit. Mr. Hagerty is undecided what he should do in the matter, but on the whole he is inclined to spread out and give this salesman an order instead of going in deeper with his present creditors.

Question

Would it be advisable for Mr. Hagerty to place an order with this new wholesaler?

Buying 18

Longacre Department Store—Joint Buying to Secure Quantity Prices

The Longacre Department Store and Walters & Dougherty are stores very simliar in general policy, with average annual sales volumes respectively of $6,327,000 and $5,498,000. Both stores are members of the Up-State Dry Goods Association, an organization for the exchange of trade statistics, research data, and general information. This Association is not a cooperative-buying organization, and has not maintained a New York office. The Longacre Store is the larger of the two, and enjoys in its city a slightly better reputation than Walters & Dougherty does in its location.

The Longacre Department Store has never attempted to develop its own brand; neither has it particularly favored handling nationally advertised, trade-marked goods. The store has limited itself, however, to a few manufacturers, and by so doing has tried to build up a good business on lines of merchandise in which both the store and its clientele can have confidence.

Walters & Dougherty, in its buying, has followed much the same plan, but has bought from different sources. Its best selling lines are priced slightly higher than the Longacre Department Store's best selling lines, and its appeal has been directed to a class of consumers whose purchasing power is slightly higher than that of most of the Longacre Department Store's customers.

One of the buyers for Walters & Dougherty has recently been given a special offer in full-fashioned silk hosiery. The quality of the sample is excellent and fully equal to the quality of their best selling line secured from the regular source. The quantity, however, is much too large for the store to handle. For this reason the merchandise manager of Walters & Dougherty has asked the merchandise manager of the Longacre Department Store to take one-half the total quantity offered by the manufacturer. The merchandise manager of the Longacre Department Store has found the quality of the sample submitted to be slightly superior to the quality of his best selling line, secured from his regular source. The cost is such that the hose can be sold at the regular prices of his best selling line to net a normal profit. The manager does not feel certain, however, that the

hose as delivered will be as good as the sample, and he is not certain that his customers will be as well satisfied with this new line, which might differ in some respects from the hosiery they are acustomed to, as they would be with goods secured from the regular source. The buyer in the hosiery department of the Longacre Department Store is willing to take a chance on the shipment.

Question

Should the merchandise manager of the Longacre Department Store take one-half the lot offered to Walters & Dougherty?

Buying 19

The Hagerty Dry Goods Store—Cooperative Buying Association

The following announcement was printed in the *Daily News Record*, August 21, 1921, under the heading, "Temporarily Abandon Buying Plan in Buffalo."

Buffalo, N. Y., Aug. 24, 1921.—On account of unfavorable business conditions among the smaller retail dry goods merchants of western New York and Pennsylvania, the Independent Dry Goods Corporation, of Buffalo, temporarily has abandoned its plans for the organization of a cooperative-buying society among the smaller stores in this part of the country.

At a meeting of stockholders, held in the offices of the corporation in the Coal and Iron Exchange Building, it was voted to suspend operations until late in the winter or early next spring when it was thought business conditions would improve. All funds paid into the corporation by cooperating merchants will be held in trust until operations are again resumed.

William H. Wishart, president of the corporation, told a correspondent of the *Daily News Record* that it was not lack of cooperation on the part of the smaller merchants that led to temporarily abandoning the promotion scheme, but lack of money on the part of the smaller merchants to allow them to participate in the movement.

"The smaller merchants, in this part of the state, are experiencing great difficulty," said Mr. Wishart. "Some of them may have to go out of business before fall. Business is bad and the larger stores have a decided advantage over them in making purchases, so the small merchants cannot begin to compete with the larger merchants. A cooperative buying organization is the only solution of the problem, but even then the merchants have not the funds with which to get such a movement under way."

Under the plan of the Independent Dry Goods Corporation, each cooperating merchant is obliged to pay into the corporation $500 which is used for the purchase of stock. Not more than $500 worth of stock can be bought by any individual merchant and only those engaged in the retail dry goods business are eligible to purchase stock.

It is reported several hundred merchants have already joined the society, but it declared that a warehouse could not be secured and a big supply of merchandise acquired until there were at least 500 subscribers. Plans for the acquisition of a big warehouse in Washington Street, adjoining the Coal and Iron Exchange Building, have been abandoned for the present by the corporation.

"We expect to resume operations again early next spring and maybe shortly after January 1, if business conditions have improved sufficiently by that time," said Mr. Wishart. He said the cooperating merchants showed no desire to drop out, but were anxious to proceed with the plans mapped out by the directors of the corporation.

Mr. P. J. Hagerty operates a dry goods store in an industrial town of 50,000 population within 100 miles of Buffalo. His store made a profit of about 1% during 1920 and 1921 and has an annual sales volume of a little over $100,000. This store has not joined the Independent Dry Goods Corporation, although it has sufficient resources to subscribe $500 without handicapping its operations.

Questions

Under what conditions, if any, should Mr. Hagerty purchase stock in the Independent Dry Goods Corporation?

BUYING 20

THE ROBEY STREET DEPARTMENT STORE—NEW YORK PURCHASING SERVICE

The Robey Street Department Store, in a large western city, is a neighborhood department store doing a business of about \$2,000,000 a year with a clientele largely foreign born or of foreign descent. Mr. Morris Stein, merchandise manager, has received the following letter:

PURCHASING SERVICE, INC.
Garment Center Capital

August 29, 1921

Mr. Morris Stein,
Robey Street Department Store.

Dear Mr. Stein:

The Purchasing Service, Inc., is furnishing over 350 department stores in America more than 275 specials a year. We are not resident buyers, we do not buy what you want, but offer you what we can buy. Our service covers every department in the store and is valuable alike to small and large stores. We charge you no fees and you do not have to purchase unless you want the merchandise offered. All merchandise bought through us is sold and billed strictly at our net cost (which is based on tremendous quantities) plus a small percentage. In addition you receive confidential daily reports. Whenever necessary, samples are submitted.

Our agreement with your firm is as follows:

The Purchasing Service, Inc.,
Garment Center Capital.

Gentlemen:

Please enter our name for a one-month trial of your purchasing and information service. We understand that our merchandise manager will receive daily reports on merchandise and two samples a week (samples not to average more than \$3.50 each). We are not to pay for this service and neither do we obligate ourselves in any way beyond the accepting and paying for the samples submitted. Also, we understand that we may order in any quantity from the samples and reports submitted, and for goods so ordered we agree to pay you 10% above your cost. We understand that you bill us on goods strictly net 10 days.

We agree that we shall not make known any information received from you and our buyers will be directed not to quote your prices to any salesmen, people in the trade, or resident buyers.

It is agreed that merchandise which does not correspond to samples or reports, may be returned.

It is further agreed that, if at the expiration of the one month mentioned above, neither of the contracting parties advise for discontinuance this agreement automatically goes on until two weeks' notice to discontinue is given by either party.

(Signed) ....

This agreement will explain to you in a concise and clear fashion just the service that we have to offer. We would like, however, to point out the following 15 reasons why your store would find it profitable to sign such an agreement with us.

1. You see a sample before you buy.
2. You have a sample for a comparison if you buy.
3. You are enjoying a price based on a quantity far greater than you will ever use, and far greater than you, as an individual store, would ever be able to buy.
4. Your order is placed with some one who will see it through for you.
5. We examine and insure the merchandise for you at this end.
6. We give you six merchandise reports a week.
7. We give two big specials a week.
8. We keep your specials away from your competitor.
9. We save you time.
10. We save you from 5% to 15% on all purchases.
11. We keep you in touch with the market.
12. We guarantee to reproduce any article you send us for less.
13. We are a direct assistance to all buyers.
14. We place before you 300 specials a year.
15. You own the merchandise for less if you get it through us.

Respectfully yours,

PURCHASING SERVICE, INC.

SIMON BLOOM, *President*

Question

Should Mr. Stein accept the offer of the New York Purchasing Service?

Buying 21

J. F. Holt & Company—Resident Buyer

The firm of J. F. Holt & Company operates a small department store in an up-state New York city with a population of between 15,000 and 20,000. The firm owns its store building, which is a two-story brick structure with 100 feet frontage on the main business street. On the main floor the store has located its men's furnishings, dry goods, jewelry, notions, small wares, millinery, and women's coats, suits, and skirts. The second floor is given over to furniture and rugs. Part of the basement is used for the receiving, marking, and reserve stockrooms, but a small portion is set aside for displaying and selling glassware, crockery, lamps, and kitchenware.

The total sales of the store last year were $449,007.25, and the average inventory for the store for the year was $85,000. This figure for sales represented an increase of approximately 10% over the preceding year.

In the past few years the ready-to-wear department has not yielded satisfactory profits. Last year the sales were $29,937.62, and the average inventory about $10,000. Mr. Holt considered this so poor a showing that he discharged the buyer and secured a new man from outside the store to take the department. Shortly after the new buyer had begun his work in the women's ready-to-wear department he was approached by a representative of a New York resident buyer firm. This representative stated that his employers had contracts whereby they supplied merchandise to some 60 stores in addition to a chain of 40 stores which was owned by men controlling the resident buyer firm. The merchandise handled comprised women's ready-to-wear garments only, and the resident buyer made a specialty of coats, suits, and skirts, in the medium and low-medium grades. Some lower-priced fur coats were handled. The plan on which this firm offered to supply merchandise to Holt's was as follows:

The resident buyer had established relations with a number of companies manufacturing the various garments, and because of the large quantities of merchandise which he was able to sell for these manufacturers, he secured from them a condiserable discount and also the privilege of returning merchandise purchased any time within 10 days from the date when the mer-

chandise first arrived in the final purchaser's store. For his services the resident buyer charged the stores 3% of the cost of the goods to him. In making their purchases the store buyers went directly to the show-rooms of the manufacturers associated with the resident buyer. There they selected what they wanted and ordered it shipped to their own stores. The merchandise was billed to the resident buyer who would be charged by the manufacturer for the merchandise at the reduced rate price. The resident buyer would then send out his bills to the stores at this reduced rate price, adding his 3% commission at the bottom of the bill. At any time within 10 days after the merchandise arrived at the store, it could be returned direct to the manufacturer, a credit being secured from the resident buyer. The discount obtained by the resident buyer from the manufacturer was so great that the final cost to the purchasing store, including the 3% commission paid to the resident buyer, was from 5% to 8% less than the price that store would pay for the same merchandise if purchased on its own account direct from the manufacturer.

Another feature of the plan described by the resident buyer's representative was the system of reports sent to the resident buyer's office by all his clients. These reports included a weekly report of stock on hand, a daily report of merchandise received, and a daily report of sales.

The weekly report of stock on hand was divided into four major classifications, as follows: dresses, suits, coats, and skirts, suits and coats being subdivided into two classifications, fall and spring. Thus the report was rendered in six parts. Under each of these six parts there were further subdivisions according to material. The form for reporting the stock on hand had columns under each of the six parts for the various prices, and lines or rows for the various materials, as well as for totals. Thus, under dresses there was shown the number of wool dresses, silk dresses, and cotton dresses on hand, marked at retail \$19.75, \$22, \$25, and so on. The report showed, therefore, the number of pieces on hand of each garment, in each material, at each price, and also the total stock in dollars at retail in each of the six classifications and in the entire department.

The daily report on merchandise received had space at the top for the following information:

Article	Date of Invoice
Received at	Terms
Manufacturer's Name and Address	Manager's O. K.
Received and Marked by	Total Amount Entered, both Gross and Net
Date Received	Date Paid
On Trial, Consigned, or Bought	Check Number

Below this heading was the form proper, having columns for material or description of the garment, the style number, the color, the various sizes, the cost (gross and net), the selling price marked, the selling price actual, and the date sold or returned. In making out this report one line was used for each style number, and quantities were indicated in the various size columns. This report was used in the New York office of the resident buyer for checking invoices received by him from the various manufacturers.

The daily sales report bore at the top the name of the store reporting and the date. The report proper had columns headed as follows:

1. Receiving Book
2. Manufacturer
3. Cost
4. Retail
5. Coats—lot and quantity
6. Suits—lot and quantity
7. Dresses—lot and quantity
8. Skirts—lot and quantity
9. Waists—lot and quantity

In requiring these daily sales reports the resident buyer sought primarily to determine how the goods purchased from the various manufacturers were moving. In making the report the stores entered in the first column, "Receiving Book" the number of the page and line in the book on which the store reported receipt of the merchandise in question. In the next column was reported the manufacturer's name, and in the next two columns the cost and retail price per unit; in one of the five additional columns was indicated the lot number of the merchandise sold and the quantity sold. A separate line in the report was used for each lot number reported, and the reports for all lot numbers for the same manufacturer were grouped on adjacent lines.

From these daily sales reports the resident buyer was able to advise his clients with regard to exact style numbers by which

merchandise was selling and which was not selling in the stores as a whole; also, he could tell Connecticut stores what style numbers were selling in other Connecticut stores among his clients, and what style numbers were not selling. Similarly he could advise stores in manufacturing towns with regard to their purchases on the basis of the sales reports from other manufacturing towns.

Through this scheme the representative asserted that his firm had been able to reduce the cost of merchandise to its clients by as much as 7 or 8%, the precise amount depending upon the proportion of the total purchases bought through the resident buyer. In addition, the investment in dead stock had been practically eliminated by the return privileges, and the sales information had enabled stores to improve their buying and increase their rate of stockturn.

The new buyer was favorably impressed by the plan and took the representative to Mr. Holt's office, asking that the services of his firm be secured by the store.

Questions

1. Should J. F. Holt & Company have granted the buyer's request?

2. What attitude should be taken toward a similar plan by the Cornwallis Department Store, doing an annual business of approximately $2,500,000 in Flint, Michigan?

3. Should the owners of a store, doing a business of $800,000 in a small town in western Montana, adopt this plan?

Buying 22

Madden Department Store—Reducing Stock Through a Buying Association

Because of their distance from the eastern markets, it is necessary for many of the western retail establishments to carry larger stocks than eastern merchants. This is due not only to the fact that buyers' trips to the New York market are more expensive than for the eastern houses, but also to the fact that the buyers must spend a longer time away from the store. If western buyers should make as many trips as do the buyers of eastern houses, they would spend practically all their time on the road. Furthermore, larger stocks must be carried because of the length of time required for shipping merchandise from the New York market to the western stores.

In order to overcome at least a part of these disadvantages, and to assist the buyers in keeping in touch with the New York market, a number of stores in Kansas are considering a plan to get together and organize a buying corporation with offices in New York City. The purpose of this association would be to keep western buyers in closer touch with the eastern markets and to advise them of current conditions. For example, if it were apparent that a certain model of women's suits was rapidly glutting the eastern market, the New York office would advise the western buyers to postpone the bulk of their purchases of suits for a short period until the merchandise could be secured at a much lower cost. This office would also shop the New York stores and furnish the buyers with information in regard to the local demand. It would also, as far as possible, furnish the latest information as to prices and sizes of the orders recently placed with New York manufacturers. After purchases had been made, the New York office of the association would handle all routing in order to relieve the western stores of this responsibility and would expedite the transportation of the goods by combining shipments to secure carload lots to central points.

If the expenses of this association were to be pro-rated according to the amount of merchandise purchased through it by the members, the stores that used the service most would be penalized the most heavily and consequently many buyers would hesitate to avail themselves of this assistance. It is proposed, therefore,

that each store should be assessed for the expenses of this association according to its total sales.

Questions

1. Would it be advisable for the Madden Department Store to join this association in order to reduce the amount of stock which it carries?
2. What factors should be taken into consideration in making this decision?
3. What benefits would a department store, located in Boston, receive from joining such an association?

D. METHODS

Buying 23

Atlantic Retail Association—Cash Discounts

A large number of department stores have adopted the policy of requiring buyers to obtain a certain cash discount on all purchases. In many ready-to-wear departments, for example, buyers have been required to secure a 9% discount. The departments handling this line of merchandise have been charged or "loaded" with the difference when the 9% was not secured. This general policy has been followed by all stores which are members of the Atlantic Retail Association. Recently the Empire State Garment Manufacturers Association decided that the 9% cash discount should no longer be given. This organization had, for some time, been opposed to the policy of granting discounts for cash payment within 10 days which were substantially higher than the interest rates for the same period. Hence the organization decided that in the future its members would grant discounts of only 2% for cash in 10 days.

Members of the Atlantic Retail Association have protested against this action by the manufacturers. The store executives have pointed out that it has always been the custom for department stores to receive this 9% discount, and that if this amount of discount is reduced, it will place them at a serious disadvantage in competing with stores which purchase from other sources at a 9% discount. The manufacturers maintain that they have reduced their prices below former levels, so that with a 2% discount their merchandise can be purchased at a lower price than was previously the case when the 9% discount was granted.

After a controversy of several weeks, the Manufacturers' Association has finally offered to give the department stores a 9% cash discount on all merchandise purchased, but with the understanding that the additional 7% is to be added by the manufacturers to their selling price.

Question

Should the department stores in the Atlantic Retail Association accept the proposed plan?

Buying 24

Kendall W. Torrey & Sons—Buying Futures in Canned Goods

The firm of Kendall W. Torrey & Sons owns one of the largest grocery stores in an Illinois city, having nearly 100,000 population. The store carries a complete line of staple groceries and food products, also fresh meats, salt meats, green vegetables and fresh fruits. Its sales in 1920 totaled $495,326. The store employs 12 salespeople regularly in the store, and operates 5 trucks in its delivery service.

The salesmen for the wholesale grocery houses are accustomed in May and June of each year to approach merchants to secure future orders for canned vegetables, the vegetables to be har-

vested and packed later in the summer. Of course, no samples are available and the merchants must rely upon the integrity of the wholesaler for protection against the delivery of inferior merchandise. These future orders frequently carry a price somewhat lower than is expected will be charged when the goods come on the market later on, the argument of the salesman being that placing the order early enables his house to tell the canner just how much to put up, thus avoiding overstocking or understocking the wholesaler. Futures as a rule, may be placed for as small a lot as 5 cases of from 24 to 36 No. 2 cans each. Even in a lot as small as this there is some saving for the store.

Mr. Torrey has never made it a practice to buy futures. He has always believed it better policy to see the merchandise before he buys and he has told salesmen that he is running a grocery store, not a speculators' office. Again, Mr. Torrey holds fast to the theory that buying futures would tend to increase his stocks and decrease his stockturn.

Question

Under what condition should the Torrey store have purchased futures in canned goods?

Buying 25

W. H. Heineman & Company, Inc.—Use of Contracts for Futures in Canned Goods and Dried Fruits

W. H. Heineman & Company, Inc., operates a chain of 293 grocery stores in one of the larger cities of the East. Approximately one-half these stores are within the city itself, and the others are scattered among the small suburbs and industrial towns within a radius of 75 miles. The Company's general offices and warehouse are located in the wholesale district of the city, adjacent to the important transportation lines, and have good facilities for trucking. At these general offices all mer-

chandise is purchased, and over 97% of all merchandise sold in the stores passes into the warehouse and is delivered to the stores in the Company's trucks.

In its buying the Company has endeavored to follow the policy of purchasing direct from manufacturers or producers wherever possible. In the buying of canned goods, both fruits and vegetables and dried fruits, it is customary to place orders well in advance of the time of harvest. These orders are usually called contracts, although they may or may not have the appearance of formal legal documents. In every case the Heineman Company enters into these contracts to protect itself against possible appreciation in market values and to insure a supply in case of short crop. These contracts usually require that the buyer take the entire quantity specified during the packing season. The price may be determined at the time of purchase, or the contract may specify that the price shall be set later. This latter form of contract is used chiefly by the fruit packers of the Pacific Coast and it usually takes one of two forms. One of these, called the S. A. P. contract, provides that the contract be subject to approval of price by the buyer. The idea is that the seller shall set his price after harvesting has begun and after he has had an opportunity to determine his costs. Then if the buyer wishes to cancel the order he may do so.

The other form of contract is called the F. A. O. P. (Firm At Opening Price) contract, and it provides that the buyer shall take the merchandise at the price specified by the seller at the opening of the season. The contracts usually provide that the seller may prorate his crop among the various buyers in case of a short pack.

It is customary in the trade for the packers to sell canned vegetables, canned fruits, and dried fruits, through brokers. These brokers are selling agents only; they do not carry a stock of merchandise. They maintain a sales force to call upon the various buyers who place orders with them. Later, after these orders have been confirmed by the buyer and seller, the contracts are signed. In dealing with these brokers goods may be purchased for future delivery or for immediate delivery.

An example of one of the simpler forms of contract entered into between the Heineman Company and a packer through the medium of the broker is furnished by the contract made in

the spring of 1920 by the Heineman Company and the Famous Packing Corporation through Baker & Walters, Inc., brokers, for the purchase of canned lima beans. At the time of sale the representative of the brokers made out a memorandum of the transaction. This memorandum was sent to the Famous Packing Corporation, who sent to the Heineman Company a signed acknowledgment in duplicate, one copy to be signed by the Heineman Company and returned. The copy, as forwarded to the Heineman Company, contained at the top, in printing, the name of the Famous Packing Corporation and the city in which its offices were located. At the bottom, in printing, were the following provisions:

GUARANTY.—We, the undersigned, do hereby guarantee that the goods hereby sold are not adulterated or misbranded within the meaning of the Act of Congress known as the Food and Drugs Act, June 30, 1906, and the amendments thereof now in force, but this guaranty does not include the misbranding of such goods sold under buyer's labels. This guaranty supersedes all guaranties previously given by us which guaranties are hereby revoked.

DELIVERY.—Delivery on this contract in case of a short pack shall be made on a pro rata basis and such delivery shall release seller from any further obligation.

SWELLS.—Seller guarantees against swells for one year from date of packing. No claims shall be made for swells except such as are held for seller's orders.

TERMS.—Cash in 10 days from date of delivery on cars at seller's warehouse, less 1½%.

There followed, in printing, the name of the Famous Packing Corporation as a signature, with a space for the pen signature of the executive who should O. K. the order.

In the lower right-hand corner was typed the name of the brokers.

In the space between the heading and contractual provisions, at the bottom, there was typed the name and address of the Heineman Company, the number of cases and a description of the goods ordered, and the price per dozen. Below that were typed provisions as follows:

Pack of 1920. Quality equal to that of 1919. Buyer's labels on all goods. Allowance of $1.50 per M. for buyer's labels. Delivery F. O. B. seller's warehouse at ....

A more involved form of contract is that entered into by the Heineman Company in the spring of 1920 in purchasing peas and succotash from the W. R. Henning Company of Hart, Michigan, through the medium of the same firm of brokers.

This contract, on the obverse side, bears at the top the words: "Canned Foods Contract." "The W. R. Henning Company, Hart, Michigan, sold this day to W. H. Heineman & Company, Inc., the following canned foods, pack of 1920. Terms and conditions on reverse side." Below, in invoice form, is listed the number of cases, the number of dozen, the size of can, the commodity, the grade and label, and the price per dozen of the commodities purchased. On the reverse side are printed the terms and conditions of the contract, as follows, with space at the bottom for signatures:

CANNED FOODS CONTRACT

As Per Specifications on the Reverse Side

Terms.—F. O. B. factory plants, cash less 2%, if draft with documents is paid on presentation, otherwise 1½%, if paid upon arrival of goods. War tax on freight at expense of Buyer. Inspection allowed.

Conditions.—The prices specified are for goods "Free on Board" sellers' factories. On account of shipments from different factories, the seller reserves the routing of freight. (If wrapper labels or tissue are to be used, three (3) cents per case charged extra for each operation.)

Routing.—Goods at risk of buyer from, and after shipment, although shipped to seller's order.

Delivery.—Shipment to be made as soon as goods are packed and ready for shipment. Seller not liable for short, late, or non-delivery of goods, if caused by fire, strikes, weather casualties, short crops or causes beyond his immediate control. Proportional quantities, only, to be delivered in case of necessity. If buyer's place of business should be destroyed by fire, he may cancel this purchase if he so desires.

Liabilities.—Seller agrees that his sales of the different commodities for the season's pack shall not exceed the average production of his plantings and that his plantings or acreage shall not exceed the capacity of his plants.

Swells and Spoils.—All goods guaranteed against swells and spoils until July 1, following date of shipment. All swells and spoils to be promptly returned for credit. (Strawberries, cherries, blackberries and huckleberries packed in enamel-lined cans, not guaranteed.)

Food Guaranty.—Seller guarantees goods covered by this contract to conform with the requirements of the National Food and Drug Act, June 30, 1906, except seller is relieved from any responsibility from misbranding when goods are not shipped under their labels. Seller

also guarantees that the goods covered by this contract were produced or manufactured in accordance with the Federal Child Labor Act of September 1, 1916.

Arbitration.—Any disputes arising as to the proper fulfilment of this contract shall be settled by the National Board of Arbitration, consisting of the arbitration boards of The National Canners' Association, The National Wholesale Grocers' Association and The National Canned Goods and Dried Fruit Brokers' Association.

Remarks.—All contracts subject to confirmation of W. R. Henning Company, from their home office. It must be understood that this contract must be subject to Government requirements.

Allowance for labels \$1.50 per M.

½% for swells.

Dated Feb. 6, 1920 Accepted—W. H. Heineman & Company, Inc.
Buyer

W. R. Henning Company
Seller

Broker: Baker & Walter, Inc.

The contracts entered into with the canning and packing companies of the Pacific Coast, especially the California companies, are still more complicated. To make clearer the nature of these contracts, two examples are cited. The first of these contracts was made by W. H. Heineman & Company, Inc., in April, 1918, for the purchase of 1,500 cases of various canned vegetables from the Pacific Coast Canning Corporation, a California firm. The obverse side of this contract bears the names of the buyer and seller, and the specifications of the order. On the reverse side are printed the terms and conditions of the contract as quoted below. The signatures of the buyer and seller, as well as the name of the broker making the deal, appear at the bottom of the reverse side.

CALIFORNIA CANNED FOODS CONTRACT

Effective March 13, 1917

Recommended by Canners' League of California

(As per specifications on reverse side)

Terms.—F. O. B. Pacific Coast rail shipping point, cash, less one and one-half per cent (1½%); if draft, with documents attached, payable in New York, Chicago or San Francisco exchange, is paid within ten (10) days from date thereof, otherwise net cash in thirty (30) days, unless shipment arrives prior thereto, in which case payment without discount shall be made within three (3) full business days thereafter. Documents against payment.

Local freight and transfer charges from interior points to point of shipment to be paid by buyer. All local freight, cartage, and handling charges for assembling purposes incurred on less than carload lots to be paid by buyer.

Marine Insurance.—On shipments via all water route to Atlantic Coast or Gulf Ports, seller to insure for buyer's account and expense to cover buyer's cost with ten per cent (10%) added; English form of policy with three per cent (3%) particular average on each package. In seller's discretion, or at buyer's request, seller to place war risk insurance for account of buyer.

Conditions.—On account of shipment from different factories, seller reserves the routing of freight. Notwithstanding shipped to sellers' order, goods are at risk of buyer from and after delivery to carrier, and buyer hereby assumes all responsibility for shortage, loss, delay, or damage in transit upon issuance to seller by carrier of clean bill of lading or shipping receipt.

It is specifically agreed that any route herein specified shall be subject to its being open or available at time of shipment. If after notice by seller, where seller elects to give such notice, buyer does not desire to have shipment made by some route then open or available, or if no route is open or available, at time shipment is ordered, seller may store and insure goods for buyer's account. If so stored and insured, buyer agrees to pay draft with documents, less one and one-half percent (1½%) in New York, Chicago or San Francisco exchange within ten (10) days from date of draft. If, upon arrival in San Francisco or other coast common point, pineapple cannot be shipped by any route for any reason or reasons set forth herein, seller shall store and insure goods for buyer's account and expense, and buyer agrees to pay for said goods, draft with documents, in accordance with the terms herein specified.

In case of short pack or Government commandeer, requisition or reservation, by reason of which seller is unable to make full delivery of any of the goods specified, delivery shall be pro rated.

If seller shall be unable to perform any or all of its obligations by reason of strike, flood, fire, crop damage, failure of transportation facilities, or for any cause or condition beyond seller's control, such obligations shall at once terminate and cease.

Goods to be shipped in seller's discretion as soon as practicable after packing. If seller elects to ship in cars for several buyers any difference in freight on account of such shipments to be paid by seller. If seller shall elect to withhold shipment at buyer's request, then the goods unshipped shall be billed and paid for on the following dates, respectively, hereinafter specified:

Peas—July 1.
Asparagus—August 1.
Tomatoes or Tomato Products—November 1.

Fruits, Fruit Products or Sundry Vegetables—December 31.
Hawaiian Pineapple—December 31.

Conditions on Unshipped Goods.—Buyer agrees to pay for unshipped goods in ten (10) days from date of draft, net cash, with warehouse or storage receipt attached; and seller agrees to store said goods and to insure them in selected insurance companies for buyer's account, against loss, or damage, by fire, for seventy-five per cent (75%) of the invoice value. Buyer shall pay one and one-quarter cents (1¼¢) per case per month to cover cost of both storage and insurance, fractions of month at full monthly rate, and charges shall accrue from date of warehouse or storage receipt to date of shipment. Seller shall have the right to move and store said goods at buyer's expense in public warehouse if goods are not ordered out by buyer prior to March 1 following date of billing as above. Local taxes, assessed the first Monday in March of each year, shall be for buyer's account.

Seller reserves the right to ship goods unlabeled when delay in receiving buyer's labels holds back shipment.

Swells.—The goods covered by this contract are guaranteed by seller against swells until July 1 following the date billed, unless said swells arise from improper handling or storage by carrier or buyer. All claims for swells must be made and bills rendered by buyer on or before said July 1 and swells held subject to seller's order.

Claims other than for swells must be presented within ten (10) days from receipt of goods.

Guaranty.—Seller guarantees goods covered by this contract to conform to the requirements of the National Food and Drugs Act of June 30, 1906, as amended, except that seller shall be relieved of any liability for misbranding when goods are not shipped under seller's labels or brands.

This contract shall not be binding upon seller until signed by the Coast Canning Corporation at its principal office in San Francisco. Brokers and salesmen have no authority to waive, change, or add to, any of the terms or conditions specified herein.

Buyer, W. H. Heineman & Company, Inc.
By . . . .
Seller, Pacific Coast Canning Corporation
By . . . .

Baker & Walter, Inc., *Broker*

The second of these two contracts was made on the 13th of March, 1917, by the head buyer of W. H. Keineman & Company and a California dried fruit firm, using the Standard California Canned Foods Contract. On the face this contract bears the name of the seller and the name of the buyer printed, together with the specifications and quantities of dried fruits purchased.

At one corner of the top it bears the following printed statement:

W. H. Heineman & Company, Inc., hereinafter called the buyer, has this day bought and the . . . . Company of . . . ., California, hereinafter called the seller, has this day sold the following quantities of California dried fruits as per varieties, style of package and price named below and on terms and conditions stated on the reverse of this contract.

The face of the order-contract also bears these two statements:

These forms can also be used when booking orders "Subject to Buyer's Approval of Opening Prices." When used for this purpose write in blank space to right, S. A. P.

Every contract must show buyer's name and address, and be signed by buyer before sending to us. When accepted by us Buyer's and Broker's copies will be signed and returned.

Further, on the face of this contract is printed the following statement relative to the manner in which the goods are to be shipped:

If herein described goods are to be shipped via Gulf lines, the provisions of this contract shall be modified and superseded by the terms and conditions of the CALIFORNIA WATER CONTRACT; but if at any time within 10 days prior to final shipping date it be found impossible, by reason of blockade or embargo, to ship via said lines, seller shall notify buyer, and, in the absence of immediate instructions to ship via another route then open or to store goods for buyer's account, the seller shall be privileged to ship by any rail route at current freight rate; should it be found impossible by reason of aforesaid causes to ship all rail, seller shall then be privileged to store and insure at buyer's expense. If the goods are shipped all rail the printed terms and conditions of this contract shall apply; if stored, buyer agrees to pay seller's draft at two (2) days' sight, less two per cent (2%) discount, to which shall be attached (in addition to the weight and quality certificates provided by said water contract) warehouse receipt and fire insurance certificate.

On the face of this particular contract, below the specifications for the goods ordered, is entered the following provision:

The above have been purchased at the packer's opening price to be named at a later date. Price guaranteed against decline until December 31, 1917.

The terms and conditions of this contract are printed on the reverse side and are quoted below. In this contract, signatures are on the obverse side.

Terms.—F. O. B. Pacific Coast Common Shipping Point; cash less 2% if draft (with documents) is paid within ten (10) days from date thereof, 1¼% if paid within three (3) full business days after arrival of goods, and if draft is not paid within three (3) days after arrival of car, no discount is to be allowed.

Routing.—Seller shall, where possible, recognize routing named by buyer, but seller has option of selecting initial line.

Responsibility.—Notwithstanding shipped to seller's order, goods are at risk of buyer from and after delivery to carrier, and buyer hereby assumes responsibility as to shortage, loss, delay or damage in transit upon issuance by carrier of clean bill of lading or shipping receipt.

Quality.—Equal to or better than average of the grade for the section where grown and of the current season at time of shipment. If sold on sample, to be equal to or better than sample.

Examination and Approval.—If shipment is not accepted or disapproved within three full business days after arrival, and goods are subject to buyer's privilege of examination, contract shall be considered fully complied with on seller's part, and invoice, if unpaid, becomes immediately due and payable.

Separable Lots.—Buyer shall not be entitled to refuse to pay for or to receive any separable lot or any portion of goods shipped hereunder for failure of any other lot or portion of the order to comply with contract, unless it is specifically provided in the body of this contract that certain sizes or grades were included, in order to secure other sizes or grades.

Liability.—Spot Sales: Where goods are sold for prompt shipment, or out of spot stock for deferred shipment, seller is not liable for loss or damage due to short shipment resulting from or contributed to by fire, floods, strikes, or any unavoidable casualty, except that a proportionate delivery shall be made to all buyers without discrimination from the suitable stock coming to or remaining in seller's possession.

Future Sales.—In the event of short delivery resulting from fire, floods, destruction of or serious damage to crops, strikes or any unavoidable casualty, seller may reduce quantity 25% without penalty, but if less than 75% delivery is tendered, seller shall pay buyer 15% of contract price as damages on such shortage under 75%.

Should seller be obstructed or delayed in the fulfilment of any portion of this contract by any of the aforementioned causes, or by strikes, or the failure of transportation facilities, then the time herein fixed for its fulfilment may, with the consent of buyer, be extended for a period equivalent to the time lost for any or all of the reasons aforesaid. Provided, however, that where notice of such contingency is given before expiration of period herein fixed for shipment, buyer shall not refuse to extend said period at least 15 days, and provided further that any premium for stipulated shipment be waived by seller.

Seeded Raisins.—The liability provisions of this contract do not apply to orders for seeded raisins in the event of destruction of seller's seeding plant by fire, or any other cause beyond his control, and buyer expressly waives penalty claim of 15% if he declines to grant the necessary extension of time to restore plant.

Weights.—No allowance shall be made except for shortage of average weights in excess of 1%.

Carton Goods.—No. 16 to average not less than 16 ozs. gross and No. 12, 12 ozs. gross when packed.

Specifications.—When specifications are not agreed upon at time of sale, it is expressly agreed and understood that such sale is made subject to seller's approval of a reasonable assortment, based on the season's gradings, and specifications are to be furnished promptly. If not so furnished within 45 days prior to first day of the period provided in this contract for shipment, seller shall notify buyer, who then failing to within 15 days thereafter furnish same, shall be bound to accept seller's assortment according to his season's gradings and in any standard size packages.

Pool Cars.—Distribution charges at destination at expense of buyer(s). Where goods are sold in less than carload quantities to be included in car for various buyers to be completed later, and if said car is not completed within five (5) days of expiration of contract time, seller has option of shipping in car to some nearby point, buyer to pay local freight from such point to final destination.

Arbitration.—Any dispute arising under this contract shall be immediately submitted to arbitration (under the National Dried Fruit Rules of Arbitration of 1913) in New York, Chicago, St. Louis, San Francisco, New Orleans, Denver, Seattle, the twin cities (Minneapolis and St. Paul), Kansas City, Omaha, Boston, Philadelphia, and any other point when mutually agreed upon, at the hands of the Dried Fruit Association of the four cities first named and by the joint Arbitration Boards appointed by the National Wholesale Grocers' Association and the National Canned Goods and Dried Fruit Brokers' Association in the remaining cities. The particular point at which arbitration is to be held shall, in the absence of agreement by the parties, be at the city in the list above mentioned which is nearest or most convenient to destination of shipment.

If arbitration is held at destination, samples shall be drawn from not less than 3% of shipment. If elsewhere, to consist of not less than 2% unopened boxes unless otherwise agreed upon.

When decision is rendered against seller, arbitrators shall determine and fix amount of allowance, which amount shall be deducted from the invoice, and the correct net amount paid immediately. If payment shall already have been made, the amount of allowance awarded shall be immediately refunded. If the arbitrators decide that seller has not shown good faith in making delivery hereunder, the buyer shall be

entitled to another tender in full compliance with this contract, or proper damages shall be awarded.

The loser shall pay all costs of arbitration and the decision shall be final and binding on both parties, who hereby agree to comply with said decision and its provisions without delay.

No unimportant variation in the execution of this contract shall constitute basis for a claim.

In the event of failure of seller to ship, it shall be considered as a dispute to be submitted to and settled by arbitration.

Brokers or agents not authorized to change terms or wording of this contract without written consent of packer.

Owing to the perishable nature of the goods handled, seller assumes no responsibility as to the keeping quality of the goods or otherwise, either expressed or implied, other than as stated in this contract.

Copy of this contract, properly signed by buyer, must be delivered to seller within fifteen (15) days from the date hereof, and must be accepted and signed by seller before same shall be mutually binding.

The Association of Chain Grocers of America at several meetings has taken up the question of future contracts as used in the canned foods and dried fruits trade. The chain store buyers have come to the conclusion that the sellers have multiplied trifles and split hairs unnecessarily. Accordingly, a committee of buyers, appointed by the association, has drawn up the following standard canned foods contract, approved by the association. Like the other contracts mentioned, this form bears on its face the statement that it is the standard contract of the association, and below is space for entering the name of the buyer and seller. Next below are lines and columns for entering the number of cases, the number of dozens, the size of the cans, the commodity, the grade and label, and the price per dozen of the articles purchased. At the bottom is the statement:

The above merchandise is sold F. O. B................, transportation charges to be paid by the seller.

The terms and conditions of the contract are printed on the reverse side and are as follows:

TERMS AND CONDITIONS

As Per Specifications on the Reverse Side

Terms.—2% Sight Draft, or 1½% 10 days, or 30 days net.

Delivery.—The seller to deliver 75% of this contract without

liability of the other 25%. Buyer or seller may cancel 25% of contract if notice is given on or before . . . . .date.

Labels.—Buyer's label if used, seller to make label allowance on basis of $2 per thousand on 2s, $2.50 on 3s, and $1 on 1s.

Swell Allowance.—½ of 1% to be allowed in lieu of swell guaranty, and is to be deducted from invoice. If excessive amount of swells develop, the loss to be paid by seller.

Guaranty.—All goods to be guaranteed by seller to conform to the National Pure Food and Drugs Act, June 30, 1906, as amended, and all Federal Food Standards, and to the Pure Food Laws of the State wherein or wherefrom such goods are packed or shipped and whereto shipment is made.

Shipments—During packing season, unless otherwise specified at the time of sale. All goods shipped after October 25 and before March 15, to be shipped in refrigerator cars, unless otherwise agreed.

Boxes.—All goods to be packed in sound, substantial wood boxes, no fibre boxes to be used unless otherwise specified at time of sale.

Arbitration.—Any and all disputes arising as to the quality of goods shipped under this contract to be submitted to the Board of Arbitration of the National Canners' Association, the National Canned Foods and Dried Fruit Brokers' Association and National Chain Store Grocers' Association. The decision of said Board or Boards shall be final and binding upon the parties hereto, loser to pay cost of such Arbitration.

Conditions.—The fulfilment of this contract is contingent upon any suspension, temporary or permanent, occasioned by fire, floods, strikes, or Government regulations.

Remarks.—All contracts subject to confirmation by the parties hereto or their authorized representatives.

. . . .

Dated . . . . .19 . . . . . Accepted . . . . .Buyer

. . . .

Broker . . . . .Seller

. . . .

Question

In its dealings with packers of the commodities concerned, under what conditions and in what cases should W. H. Heineman & Company, Inc., attempt to substitute the standard contract of the Association for contracts similar to those quoted above and entered into in the past?

Buying 26

Wyman Drug Store—Purchasing Store Sales Slips

The Wyman Drug Store refuses to carry the large number of novelties and specialties handled by many other drug stores in the middle western city in which it is located. Instead, the usual policy of this store is to stock only standard drugs, patent medicines, hot-water bottles, and other articles closely associated with actual medical needs. The Wyman Store does not permit its drug clerks to substitute other goods for those asked for by customers. In fact, it has developed such a reputation for care in filling prescriptions that a number of local physicians make a practice of suggesting to their patients, when they ask where they can have prescriptions filled, that they go to the Wyman Drug Store.

Like many of the drug stores in the large cities, this firm makes a practice of selling at cut prices. Usually these prices are in odd cents, since an article marked 79 cents seems to have a greater selling appeal than one marked 80 cents. In maintaining its reputation as a cut-price establishment, this store does not hesitate to do everything possible for its customers. For example, if it does not have on hand an article which has been asked for by a customer, it will buy the article from a competitor at full price and sell it to the customer at the usual cut rate.

In buying, the Wyman Drug Store operates on a hand-to-mouth basis. Rarely if ever does it purchase over a 30 days' supply of any article. At the central cashier station, which handles all cash and charge slips, the sales slips are sorted in groups according to the layout of the merchandise, and each morning the orders for new stock are given to the wholesalers from these slips. The stock has been highly standardized and slow-moving articles have been eliminated as much as possible.

Question

What buying records are needed to meet the present policy of buying from sales slips?

Buying 27

Crocker & Bassett—Exclusive Agency in Declining Market

In 1913 the shoe department of Crocker & Bassett, a department store whose annual sales have averaged around $15,000-000 since that time, acquired the exclusive agency for one of the best lines of men's shoes in the country, the Crosby shoe. From 1915 to 1920, 70% of the stock carried in the shoe department came from the Crosby Shoe Company and 30% from three other manufacturers. The Crosby shoe is nationally advertised. It has built up an excellent reputation for both quality and style.

In the spring of 1920, when the inventory in the shoe department of Crocker & Bassett was 20% larger than normal, sales fell off sharply, and the buyer considered the advisability of reducing prices. This he was dissuaded from doing by representatives of the Crosby Shoe Company. During the course of the next few months, while there was a steady recession of prices in the boot and shoe industry, the prices of Crosby shoes remained nearly stationary. At the same time sales at Crocker & Bassett's seemed to the buyer unduly small, even allowing for the current depression. In the fall, sales picked up somewhat, but for the year 1920 they were substantially less in dollars and cents and in number of pairs sold than sales in 1919. By the end of 1920 prices for the Crosby shoe were in line with those of shoes of similar grades. In 1921 business in the shoe department improved so that the volume of business equaled the 1919 record in the number of pairs sold, but not in money.

In 1921, Crosby shoes constituted 60% of the stock carried in the shoe department in Croker & Bassett's store. The remaining 40% consisted of less expensive shoes, which were purchased from 6 different sources. Towards the end of that year the buyer discovered that he could get shoes corresponding to the Crosby brand in quality and style, but not so well known, for approximately 50 cents less per pair by purchasing from different manufacturers, many of whom were operating on an unusually narrow margin of profit.

Question

Should the buyer have given up the exclusive agency and supplied his needs from different manufacturers?

Buying 28

R. H. Williamson Co.—Form of Order

The form used by R. H. Williamson Co. for ordering merchandise is headed as follows:

Order No. 51–50. To avoid delay in payment, your invoice must bear this number. Read this order carefully and comply with all instructions.

.........................192...

Messrs...

Please enter our order for merchandise noted below, at the prices named, to be delivered by you as follows:

....

.... on; ....

(Specify delivery date.)

Terms of payment .... % ...... Days ....

....

This order is given upon the following express terms and conditions: (1) If date of delivery is more than thirty (30) days after the date of this order, or in excess of $2,500, it must be countersigned by the President, Vice-President, or Treasurer of R. H. Williamson Co.; (2) That invoices, covering deliveries at the store, shall accompany the merchandise; (3) That invoices, covering all shipments, by freight, express, or parcel-post and the bill of lading, covering freight shipments, must be mailed so as to arrive *before* the merchandise; (4) All invoices and containers must bear the department number and this order number; (5) That you will protect us against all liability, loss or expense by reason of any patent or trade-mark litigation now existing or hereafter commenced, arising out of any alleged infringement of patent or trade-mark on the goods hereby ordered, or any part thereof; (6) That the instructions on the reverse side of this order will be strictly adhered to; (7) If this order comprises a carload, to be shipped on the same date, shipment must be by carload, following routing instructions on the reverse side hereof. If transportation conditions require a "Permit" before a carload lot can be shipped, you must advise us and wait for instructions; (8) The prices hereon shall not be increased without our written consent.

Suggested shipping route via ....

On a detachable slip on the bottom of the order is printed the following:

Messrs ....192...

Unless Order No. 51–50, placed with you for Department No......., is agreed to without change, return this voucher by registered mail,

together with a statement of your objections, addressed to Order Checking Division, R. H. Williamson Co. Not receiving this notice within 15 days from date, or prior to receipt of merchandise, we will consider the order accepted and confirmed.

On the reverse of the Order are the following instructions to shippers:

1. Invoice must accompany all city deliveries.
2. Invoice and original bill of lading, covering all shipments, must be mailed to us to arrive before the merchandise.
3. Each package must bear your name and our department and order number.
4. Invoice for merchandise delivered on Friday or Saturday should be dated the following Monday.
5. We assume no liability for loss of or damage to merchandise forwarded to us by parcel-post.
6. Shipments must be consigned whenever possible as follows:

(List of Railroads and Piers.)

Questions

1. What purpose is served by each of these requirements and directions?
2. Can you suggest any changes in the form of the order?

Buying 29

Bentley W. Fosgate & Company—Buying for Bargain Basement

For a number of years the firm of Bentley W. Fosgate & Company has been operating a medium- to high-grade department store in one of the large eastern cities. Before his death in 1914, Mr. Fosgate was exceedingly careful to avoid in his store and in his advertising anything which might be constructed as a price appeal. His aim always was to give better value than could be received elsewhere in the city and in the store appeal it was value and dependability that were stressed. After Mr.

Fosgate's death his associates carried on the business without change of policy.

They did, however, add a bargain basement which in the store literature and signs was always referred to as the "downstairs store." In this "downstairs store," in spite of the fact that the appeal is solely that of price, the management requires that the merchandise be of good quality and that the customers get as good value as in the "upstairs store."

In 1920 the 70 departments of the store proper sold $18,000,000 worth of merchandise. In that year its policy of pushing ready-to-wear garments for men, women, and children first bore fruit in the form of increased sales in these departments and marked improvement was made in the volume of sales in women's underwear and negligee. Besides these lines, which now were made the store's specialty, it carried dry goods, domestics, draperies, notions, smallwares, jewelry, and some fine china and glassware.

At present the basement store is organized entirely separate from the upstairs store up to the point where the merchandise manager's authority begins. He has charge of all buyers in both the upstairs and basement stores. In no case is the buyer for a department in the upstairs store permitted to purchase merchandise for or have charge of a department handling the same or similar lines in the basement. The personal qualities needed in a buyer for the two stores are considered to be entirely different. The basement specializes on job lots, bankrupt stocks, goods remaining at the end of the season, and on merchandise manufactured to sell at a low price. The upstairs store, on the other hand, attempts to lead the city in style merchandise. It rarely, if ever, buys job lots.

The basement-store buyers and the upstairs-store buyers compete but little in the market because they are seeking, as a rule, entirely different merchandise. There may be some competition in the higher-price levels of the basement line and the lower-price levels of the upstairs line. The basement-store buyers may buy from an upstairs-store buyer. In such a case, the merchandise is charged to his department at the price he pays for it. Similarly, the merchandise is credited to the upstairs-store buyer at the price he realizes for it, just as if he had sold the merchandise for that price to a customer. As a

rule, if a label bearing the firm's name has been attached to the merchandise, it is removed when the merchandise is sold to a basement buyer.

In commenting upon this feature of the basement-store operation, the merchandise manager states that it is only rarely that merchandise is purchased by a basement buyer from an upstairs-store buyer. Usually the normal mark-downs in the upstairs-store departments clear out any stale merchandise. What little does pass into the downstairs store usually goes down at the time of the annual stock-taking sales. The manager goes on to say that if two buyers cannot agree on a price, and if it seems advisable to transfer the merchandise to the basement store, he himself settles the price at which the merchandise shall change hands. He says further, that in such cases his tendency is to favor the basement buyer because he believes that it will tend to maintain the efficiency both in the upstairs and the basement stores.

Questions

1. Should the store continue its practice of selling merchandise from an upstairs department to a basement department?
2. Should it continue to make transactions of this kind in the same manner as it is now making them?

PART IX

GENERAL ADMINISTRATIVE PROBLEMS

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GENERAL ADMINISTRATIVE PROBLEMS

THUS far in this book we have considered the questions of policy and of technique in relation to merchandise and non-merchandise functions. This section presents problems which, while they affect the operations of the store as a whole and so indirectly have to do with merchandise, arise as policies to be decided by the executive management. The following classification is made of the general administrative section:

- A. Personnel
    - I. Executive
        - *a.* Organization
        - *b.* Education and Payment
    - II. Non-Executive
        - *a.* Organization
        - *b.* Promotion and Employee Service
        - *c.* Method of Payment
- B. Financial
- C. Price Policy
- D. Retail Problems in Relation to General Business Conditions
- E. Other Administrative Problems.

Personnel problems, in dealing either with executive personnel or with non-executive personnel, consider questions of organization, education, promotion and service, and method of payment of employees.

Financial questions take up relations with creditors, financial structure, statistics, insurance and taxation.

Questions of price policy raise the points of the determination of the proper selling price, mark-up and mark-down policies, price comparisons, and price standards.

Many retailers have failed within the last year because they did not consider the economic background of their business and the relation of general business conditions to retail trade. To consider this important field, a section has been included which deals with the policy to be followed in a rising and falling market, the possibilities of building up a reserve against inventory depreciation, buying and price policies in a falling market, and the decrease in operating expense during a period of liquidation.

A. PERSONNEL

1. EXECUTIVE

a. ORGANIZATION

General Administration 1

J. J. Brennan and Company—Organization of the Personnel Department

The department store of J. J. Brennan and Company has long been a leader in personnel and welfare work. A number of years ago the store placed a special executive in charge of its employment and assigned to this man, in addition to the work of interviewing, hiring, placing, and transferring employees, the task of keeping adequate records of the performance of employees and preparing the necessary data for the payroll office. At about the same time, the store began the work of training salespeople in store system, and placed this work in the hands of a woman who had had considerable experience in teaching in secondary schools. Later, she gave, in addition to the training in store system, some cultural courses. These courses meet during slack periods of the day, or in some cases during the evening, and are furnished by the store to its employees free of charge. The store has a mutual benefit association which provides sickness and accident insurance and also small death payments. This benefit association, in addition to its other activities, operates a savings bank. Recently the store has employed a physician, who gives all his time to looking after the health of employees and attending those taken sick or injured in the store.

At present in the store organization all authority and responsibility are centered in the president. On the next level of

authority there is an engineer in charge of plant and maintenance of plant, a foreign manager in charge of the foreign buying office, a treasurer who is the merchandise manager in addition to attending to the functions usually assigned to both treasurer and controller, an advertising manager, and a general superintendent.

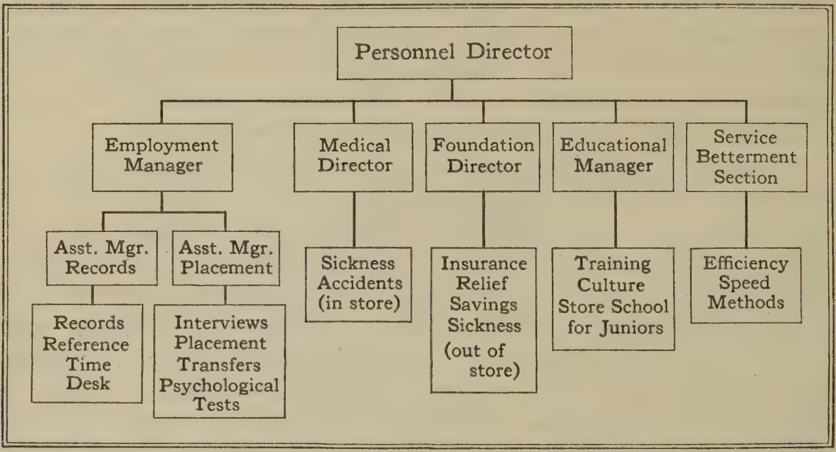
Reporting to the general superintendent there are directors of delivery, inventory, selling, and housekeeping, which include janitors, porters, doormen, and the like. The employment manager, when his office was first created, reported directly to the general superintendent. The woman in charge of education also was placed under the general superintendent's office, as was the store physician when he was employed. The officers of the mutual benefit association, because of their financial duties, were made responsible to the treasurer.

About a year and a half ago the work of the employment manager's office became so large that it was decided to divide its functions. The employment manager was retained, and the work of keeping all records and statistics with regard to employees was placed under his immediate supervision. A new man was brought in with the title of placement manager, and to him was assigned the work of interviewing, hiring, placing, and transferring employees. This placement manager reported directly to the general superintendent, but in salary and in general responsibility he was considered as being directly below the employment manager.

This new placement manager had had considerable experience in factory personnel work and while engaged in that work had made a rather detailed study of personnel problems in department stores as well as in factories. He believed that for proper control and administration of the various functions connected with personnel there should be a personnel director immediately responsible for all personnel work. He was convinced that the organization of the Brennan store resulted in much waste motion and duplication in the carrying out of policies; moreover, he thought that it would be difficult to adopt and maintain a unified personnel policy under these conditions. The new placement manager held to his views so strongly that after he had been with the firm some 18 months he prepared Form 79 on page 778 for presentation to the boards of directors, with

the definite suggestion that personnel functions in the store be organized in accord with this form under a personnel director.

At the time the suggestion was made, the lines of authority and responsibility in the store's organization were not distinctly drawn. There was no executive corresponding to the personnel director, nor was there one corresponding to the employment manager as shown in this new form. The employment manager and the placement manager corresponded to the two assistant managers shown in the form. The physician corresponded to the medical director. There was in the treasurer's



FORM No. 79. J. J. Brennan and Company—New Chart of Personnel Functions

office a minor executive who fulfilled the functions of a foundation director. The woman in charge of teaching and education had under her an organization which, in the new scheme, would be moved bodily into the sphere of the personnel director as the section under the direction of the educational manager. The service betterment section did not exist. According to the placement manager's scheme, the whole personnel department, including the personnel director, was to be subordinate to the general manager, the director being on a par with the director of delivery, the director of selling, and officers of like rank.

Question

Should the Brennan store have adopted the suggestion of the placement manager?

General Administration 2

George M. Shoemaker & Sons—Relation Between Buyers and Floor Superintendents

The department store of George M. Shoemaker & Sons has an annual volume of sales ranging from $25,000,000 to $28,000,000 a year. The store building was built especially for the firm six years ago, and fitted with equipment that was up-to-date at that time.

The business was founded by Mr. Shoemaker 44 years ago as a small dry goods store. The silk department has always been a personal hobby of Mr. Shoemaker's and early achieved an enviable reputation for the quality and variety of its silks. As the store grew, ready-to-wear garments for ladies, misses, and children were added, and these departments eventually overshadowed in importance the dry goods, notions, and similar departments.

When the store was moved into its new building a complete set of men's departments was added and during the past few years these departments have been pushed aggressively by special advertising and the giving of extra value. In addition to these departments in which the management takes special interest, the store has departments carrying furniture and other home furnishings, jewelry, stationery, books, trunks and bags. Shoemaker's has always been among the first stores to add new personal service departments.

In the Shoemaker organization there are four main divisions, each in charge of a member of the firm. Mr. George M. Shoemaker is still the nominal head of the merchandise division, although his assistant handles the active work of management. His son, Mr. George M. Shoemaker, Jr., is a member of the firm in charge of the selling division, and a younger son, Mr. Ralph B. Shoemaker, is in charge of finance and accounts. The fourth major division, that of publicity, is placed in charge of Herbert P. Cook, an experienced advertising man. Mr. Cook is the only member of the firm who is not also a member of the Shoemaker family.

The merchandise division has charge of buying and all major policies. It interprets demand and it determines, for example, at what time various lines should be displayed and what mer-

chandise should be advertised if the publicity department assents. This department is responsible also for securing the proper mark-up on merchandise and for making sure that the actual performances of the various departments are equal to the planned performances.

The selling division receives the merchandise, marks it in accordance with the prices supplied by the buyers, stores the merchandise in reserve stock, places it in forward stock as it is called for by the buyers, and takes care of all relations with the public in selling and in adjusting complaints. Subordinate to Mr. George M. Shoemaker, Jr., are the various floor superintendents of the store, salespeople, receiving, marking, and stock employees. The head of this division is also responsible for keeping operating expenditures within the budget and in this connection is responsible for all matters pertaining to maintenance of plant and personnel.

The publicity division looks after all matters pertaining to printed advertising, store decoration, and window display. He has authority to say whether or not an article which a buyer wishes to advertise shall be advertised, and whether or not a buyer shall have a specified window at a specified time for the display of merchandise from his department.

Mr. Ralph B. Shoemaker, who is at the head of the finance and accounting department, is responsible for all matters of financial policy and the major work of budgeting expense and sales. All the office force connected with accounts receivable, accounts payable, the general ledger, and auditing of sales slips, as well as the office force in the statistical department, come under his jurisdiction.

Thus it is seen that no selling department is responsible as a unit to a single major division of the store organization. The buyer and his assistant come under the control of and report to the merchandise manager. The floor superintendent is directly responsible to the head of the selling division. In store parlance, each department is looked upon as a separate shop, this shop being a partnership made up of the buyer, the floor superintendent, and the assistant buyer. In this partnership the buyer is the senior partner in that he draws the largest salary and usually dictates matters of policy.

Furthermore, in most cases he dominates the situation. This domination, as well as the high salary paid to the buyer, is due, according to Mr. George M. Shoemaker, Jr., very largely to the shortage of buyers and to the fact that it requires a considerable time to develop a good buyer. Each buyer is supposed to be an expert in his line, fully acquainted with the merchandise and familiar with the resources from which the merchandise can be secured, as well as with the general trade conditions. The floor superintendent has duties for which a man can be trained in a relatively short period of time, and for which many men are suited.

Hence the market value of the buyer is much greater than that of the floor superintendent and may in some instances be higher than the real value of the buyer. The fact that buyers are hard to replace is largely responsible for the fact that in case of disagreement between the buyer and the floor superintendent decisions are likely to favor the buyer. In spite of these statements, Mr. Shoemaker, Jr., believes that on the whole the buyers are of higher caliber than the floor superintendents and have superior merchandising judgment.

In the work of the department the buyer spends perhaps one-half his time out of the store. The assistant buyer is his representative on the job, and it is through the assistant buyer and the store statistics that the buyer gets most of his information with regard to sales and popular demand. He makes up, in other words, for his lack of personal contact by using statistics and by having an assistant who does get his personal contact in a large measure.

In addition to buying the merchandise the buyer prices all his merchandise both when it arrives and when adjustments in price, either up or down, are necessary. He is in charge of departmental sales strategy and is in general responsible for making the department show the required profit. The list of his duties is not long, but it includes perhaps the most important and those bearing the greatest responsibility. The floor superintendent has duties of a more detailed character and which are much more easily listed.

Through his personnel director, Mr. George M. Shoemaker, Jr., had the following list prepared, which gives a complete survey of the duties and responsibilities of floor superintendents:

DUTIES AND RESPONSIBILITIES OF FLOOR SUPERINTENDENT

The floor superintendent has full charge of the floor organization, and is primarily responsible that all customers are promptly and satisfactorily served.

Duties in General

I. *Service to Customers.*—He is responsible for prompt, courteous and efficient service to customers in his department.

II. *Volume of Sales.*—He shall cooperate with the buyer toward the accomplishment of the planned volume of sales.

III. *Training and Efficiency of Subordinates.*—He is responsible for the training and efficiency of the organization under his control.

IV. *Store System and Rules.*—He is responsible for the enforcement of the store system and store rules affecting himself or his department.

V. *Control of Expense and Organization of the Department.*—He shall keep all items of expense over which he has control as low as is consistent with a high standard of efficiency and service.

VI. *Handling of Merchandise.*—He shall protect merchandise from depreciation.

VII. *Care of the Floor and Fixtures.*—He is responsible for the appearance of his section.

VIII. *Opening and Closing the Department.*—He shall have his department ready for business each morning at 8:30 o'clock, and he shall be the last to leave it at night.

IX. *Protection Duties.*—He is responsible, in his department, for the enforcement of store rules affecting working hours, for such protection of the property of the business or of customers from loss by theft, fire or other damage, as lies within his power, and for the prevention of accidents.

X. *Meetings.*—He shall take an active part in all floor superintendents' meetings.

Duties in Detail

I. Prompt, courteous, and efficient service to customers.

A. Position in department. Position in department to be such that he may

1. See that all customers receive prompt attention.
2. Detect instances of discourtesy, inattention or incompetence on the part of members of his force.
3. Address customers before they leave the department and endeavor to find out whether they have been satisfied, and if not, to satisfy them.

B. Arrangement of Time Schedule.

To so arrange the time schedule of his subordinates that his department may have the largest practicable force during the busiest hours.

C. Study of Salesmanship and Service.

To constantly study salesmanship and service to customers

D. Promises to Customers.

To see that all promises to customers are kept.

E. Complaints.

To handle all complaints in accordance with the store policy, which is, "Always satisfy the customer."

F. Credits, Exchanges, and Refunds.

To see that credits, exchanges and refunds are handled courteously and cheerfully, and in accordance with store rules.

G. Telephone Orders.

To see that telephone orders are handled accurately and promptly.

H. Opening Accounts.

To render every assistance to customers who desire to open accounts.

I. Approval of Checks.

He may approve checks up to $50 upon identification of the customer, if he is satisfied as to her financial responsibility.

J. Lost and Found Articles.

Immediately to send all articles found in his department to the Personal Service Bureau, except that loose money shall be sent to the Cash Office.

K. Prompt Delivery of Packages.

To see that the head examiner is notified when packages are not being delivered promptly and taken to the shipping room in time to be sent out on the delivery promised.

L. Knowledge of Store.

He shall possess a good general knowledge of the store and its merchandise.

M. Personal Service Bureau.

To secure the Cooperation of the Personal Service Bureau for customers desiring particular attention.

II. Cooperation with the buyer toward the accomplishment of the planned volume of sales.

A. Volume of Sales.

To make every effort to increase the volume of sales of his department. To this end he shall

1. Maintain an efficient corps of salespeople.
2. Secure from the buyer adequate instructions for the salespeople.
3. Secure from the salespeople such cooperation that they will call someone higher in authority when unable to make a sale.

B. Call Slips.

To see that a call slip is made out for every call for merchandise not in stock.

C. Stock Lists.

To see that stock lists are taken whenever necessary.

III. Training and Efficiency of the Organization Under His Control.

A. Personal Training.

To personally train his subordinates by

1. Explaining to each his respective duties.
2. Holding each definitely responsible for the efficient performance thereof.
3. Suggesting changes in methods of work.
4. Perfecting salesmanship and service.

B. Cooperation with Educational Division.

To cooperate with the educational division in carrying out its plans for the training of the people in his department. These plans include:

1. Instruction in Salesmanship and System.
2. Efficiency bulletins discussed in conference with the floor superintendent.
3. Conferences held by buyers.
4. Correction of errors in system or service discovered by the accounting department or by shoppers.

C. Location of other departments.

To send his force at regular intervals through other departments.

D. Daily Advertisements.

To see that all members of his force read the daily advertisements of this store.

E. Instruction of New Employees.

To see that all new regular and special employees in his department receive proper instruction.

F. Removal of Employees.

He may remove employees from his department for cause, whenever necessary.

IV. Enforcement of the store system and store rules affecting himself or his department.

A. To know and understand thoroughly the store system and store rules, and all orders pertaining to his work.

1. All bulletins and orders to be kept in a file.

B. To enforce strictly the store system, rules, and orders. Special attention to be given to the following points:

When merchandise is to be charged to a customer's account, to make sure, before its delivery, that

1. A charge coin is presented, or
2. The customer is properly identified.

To see that no reduction in the retail price of the merchandise is made except through the mark-down book.

C. To see that mail-order department messengers are given prompt and careful attention.

V. Items of expense to be kept as low as is consistent with a high standard of efficiency and service.

A. To understand how the expense of his department is apportioned and controlled.

B. To keep within the appropriation for his department.

1. Wage Appropriation:

a. To estimate accurately in advance the number of regular and special salespeople and stockpeople required each month to handle the guaranteed monthly volume of sales of his department.

b. To understand how and when to order regular and special people.

c. To cooperate with other floor superintendents by temporarily transferring to their departments, if they are insufficiently organized at any time, any of his people that he can spare, and to secure like cooperation.

2. Supply Appropriation:

To keep a careful record of all supplies and guard against waste.

C. To keep the expense of special messenger service as low as is consistent with the above standards of service.

D. To see that there is no waste of electricity by the unnecessary use of lights and fans.

VI. Protection of merchandise from depreciation.

A. To render aid in the marking of merchandise when necessary.

B. To see that his stock is so handled as to avoid physical deterioration.

1. Stock must be kept clean.
2. Stock must be carefully arranged (that is, hung, boxed, or laid away).
3. Stock must be covered at night.
4. Mismatching must be guarded against.

He shall divide the responsibility for the care of stock among the salespeople and stockpeople in his department.

C. To see that the salespeople make every possible effort to dispose of the slow-selling merchandise.

D. To see that all returned merchandise is put in the best possible condition, correctly reticketed, and promptly put back into stock.

VII. Appearance of his department:

A. To be responsible for the cleanliness of his department.

B. To see that all the stock is neat and attractive, and properly displayed, by 8:30 o'clock.

C. To see that the trucks are emptied and removed from the floor before 9:30 o'clock.

D. To see that the equipment of the department is at all times in good condition.

VIII. His department shall be ready for business each morning at 8:30 o'clock, and he shall be the last to leave at night.

A. To register his name on the bulletin-board in the office of the store superintendent each morning.

B. To be in his department, ready for work, each morning promptly at 8:00, and to have his department ready to serve customers promptly at 8:30 o'clock.

C. To see that all customers detained in his department after closing hours are accompanied to the street floor and passed out of the building without unnecessary delay.

D. Not to leave the department at night until all people have left, windows are closed, and lights are out.

IX. Enforcement of store rules affecting working hours, protection of the property of the business or of customers from loss by theft, fire or other damage; and prevention of accidents.

A. Time Schedule.

To see that the protection department's time schedules, showing the working hours for women and minors, are followed strictly.

B. Theft.

He shall use every precaution to protect his stock and the personal property of customers against theft. He shall

immediately report all persons acting suspiciously, and all cases of stealing, to the head of the protection department.

C. Fire.

He shall use every precaution to protect his stock and equipment against damage by fire or carelessness.

D. Mechanical Equipment.

He shall report immediately all defects in the mechanical equipment to the mechanical department.

E. Accidents.

He shall render every possible assistance to any person who may be injured while in his department, and notify immediately the head of the protection department and the head nurse of any such accident, however slight.

X. He shall take an active part in all floor superintendent's meetings.

SUMMARY OF THE ROUTINE WORK OF THE FLOOR SUPERINTENDENT

Morning 8:00 to 8:30

Enter at the time desk, register on the bulletin-board in the office of the store superintendent; be on the floor at 8 o'clock; make sure that the selling space is clean in every part; that displays are prepared and present a neat and attractive appearance; that proper stock is on sale, and that the floor is in every way ready for business at 8:30 o'clock. Go through files on desk and see what bulletins should be read to and signed by salespeople, and what matters should be attended to during the day. See that lights are turned on at 8:25.

8:30 to 10:00

Check attendance and notify the store superintendent of any vacancies that must be filled. See that employees are dressed in conformity with the store rules; that advertisements are read and signed; that salespeople begin on the care of stock; that the floor clerical begins at once on complaints and credits; that empty boxes are removed; that necessary supplies are sent for; that empty supply trucks are removed before 9:30; that the floor boys are started on cleaning schedules for that morning; that stockpeople are attending to the work assigned to them. Examine promise books; see that credits are properly reticketed and returned to stock. See that the numbers of salespeople are stamped in their respective salesbooks. On express calls, when the goods are sent on approval, see (1) that girls send them and (2) that goods are returned in proper time. Hold conferences on merchandise (technical salesmanship, slow-selling merchandise, system, etc.).

Noon

Check lunch hours to see that the department is always properly protected; that no one takes more than one hour, and that all female help and minors have left the department for luncheon before 2 o'clock.

3:00 o'clock

Make out a list of any specials required for the following day, and see that it is sent to the office of the store superintendent before 4:00 o'clock.

4:00 o'clock

See that call slips are collected from each salesperson.

4:30 to 5:30

Sign P. M. slips, checking at the same time from the list posted in the bundle desk. See that salesperson's numbers are on all credits before the book is sent up. Go over your personal memorandum book and see if your own agreements with customers, such as promises to telephone, etc., were carried out. Tag broken fixtures and leave the same in the middle of the floor. See that salesbooks are left in one place. Occasionally verify addition on sales records to insure accuracy. See that desk is clear and sales reports sent to the auditing office. See that stock is properly covered, windows closed, lights out as soon as possible and that everybody has left the floor before you go.

To Keep in Mind at All Times Throughout the Day

See that customers receive prompt, courteous and efficient service.

Be prompt to check loud conversation, grouping, eating, calling first names, and inattention to customers.

Watch for chances to prevent the depreciation of merchandise.

Be on the lookout for shoplifters.

See that the store system, store rules, and orders are enforced at all times.

Take sufficient time before affixing signature to determine if the transaction is O. K.

Handle promptly all matters sent from the bureau of adjustment, and see that it receives full information in each case.

See that the floor is kept free of paper, etc.

Read all bulletins and take such action upon them as may be necessary.

See that all members of the organization who leave the department ask for and receive passes.

See that the department is properly ventilated at all times.

Duties on Special Days

Monday: Note any changes in the time schedule and give the necessary instructions to the department force.

Wednesday: Send order for Saturday and Monday specials to the office of the store superintendent by 1:00 o'clock.

In the work of the store, friction frequently arises in the selling departments between the buyer, representing the merchandise division, and the floor superintendent, representing the selling division. For instance, the floor superintendent may believe that a particular salesperson is especially efficient and may take steps to get that salesperson for his department. The buyer may have a different opinion and may even refuse to have this person in his department. As a result, there is trouble which can be settled only by appealing to higher authority. The final judgment in this case would be with Mr. George M. Shoemaker, Jr. Again, the buyer may desire to take a mark-down. He secures proper authorization from the merchandise office and then directs the floor superintendent to take the proper mark-down and see to it that the goods are repriced. Friction may arise if the floor superintendent does not reprice the merchandise promptly. Other differences of opinion may arise in regard to almost any matter coming within the jurisdiction of the floor superintendent, as, for example, in the care of merchandise, in the liberality granted customers in adjustments, in the arrangement of fixtures, and in the way the floor is dressed. Very often the trouble is due to an assumption by the buyer of undue authority over the floor superintendent.

As was pointed out above, Mr. George M. Shoemaker, Jr., in his capacity as head of the selling division, has charge of all matters of personnel and plant along with the matters of handling merchandise and selling. To help him in this work he has five assistants, an educational director, a personnel director, a physician and physical director, a service superintendent in charge of selling, and a mechanical superintendent. In all matters of training and system the responsible directors are supreme, subject, of course, to Mr. Shoemaker's higher authority. In changing store system or methods of training they act through the service superintendent, who passes his orders down to the employees concerned through the floor superintendents. The buyer has no authority whatever over system.

In the Shoemaker store the friction between buyers and floor superintendents, although not so great as in several competing stores in the city, is yet sufficient to cause trouble. Mr. Shoe-

maker, Sr., believes that this friction may be eliminated, or at least materially reduced, by changes in the organization or by a more careful designation of duties and responsibilities. He has had the matter under study for some time, and one of his subordinates has suggested to him that the buyer be made supreme in the department, the assistant buyer remaining his representative on the job in matters of general departmental policy, and the floor superintendent being his representative always on the job in matters of personnel control, care of stock, care of fixtures, and general relations with the public. This change would make no other alterations in the work of the floor superintendent; it would merely change the authority over him from the selling division to the merchandise division.

When this suggestion was brought out in one of the weekly store meetings, a member of the present selling division came out strongly against it and in favor of the existing system. He maintained that the existing system was superior on two main counts. First, the store system, the supervision of sales force, and similar routine affairs should be in charge of men who are in the store at all times. Second, that the work of the department would proceed better with a division of authority, this division being helpful, even if a cause of friction. In addition to these main counts he added that he believed there would be more errors in store system under the proposed plan and also that adjustments would not be made with a proper degree of fairness to the customer and to the firm.

In the Shoemaker store charge sales comprise about 40% of the store's business. In the making of charges two functions are recognized—the authorization of the charge and the identification of the person requesting the charge. On sales up to $10 the possession of a coin issued by the credit department is sufficient authorization and identification. In transactions of $10 and over, authorization is secured by the cashier over the telephone from the credit office and is attested by the cashier with her authorization stamp. Identification is made by the floor superintendent, who signs to indicate his identification.

Question

Should the Shoemaker store change from its existing organization as regards buyers and floor superintendents to the suggested plan or to any other plan?

General Administration 3

Wallace K. Ginsberg & Co.—Contract with Buyers

The method of compensation for buyers that is set forth in the following contract was put into effect February, 1, 1921, by Wallace K. Ginsberg & Company.

WALLACE K. GINSBERG & CO.

Dear Sir:

Confirming our conversation, Wallace K. Ginsberg & Co. agrees to employ you from........................to January 31st next, inclusive (unless your employment hereunder is sooner terminated as hereinafter provided) as Buyer in the following departments:

....

....

at a salary of............per year, payable weekly.

If your employment hereunder continues up to and including the said 31st day of January next, Wallace K. Ginsberg & Co. agrees to pay you as additional compensation within 60 days from the said 31st day of January next, ...% of the increase in net profits or decrease in net losses of said departments occurring during the period of your employment hereunder as compared with the corresponding period ending with the 31st day of January,....... Such gain over the preceding year shall be the net gain of all said departments computed as a unit.

It is understood and agreed, however, that if your employment hereunder shall be terminated prior to January 31st,......, for any reason or in any manner other than by the voluntary act of Wallace K. Ginsberg & Co., you shall be entitled to receive only salary at the rate of $.........per year up to the time of such termination, and you shall not be entitled to any additional compensation whatsoever.

If, however, your employment hereunder shall be terminated by the voluntary act of Wallace K. Ginsberg & Co. prior to said 31st day of January next, Wallace K. Ginsberg & Co. agrees to pay you as additional compensation within 60 days from such termination......% of the increase in net profits or decrease in net losses of said departments occurring during the period of your employment hereunder as compared with the corresponding period during the year immediately preceding.

Your salary is, of course, in no event, to run beyond the date of the termination of your employment hereunder.

For the purpose of this agreement, net profits and net losses shall be ascertained for both years by taking the sum of gross profits of said departments plus discounts on purchases enjoyed by Wallace K. Ginsberg & Co. and deducting therefrom direct departmental expenses, such expenses to include all compensation to employees of said depart-

ments paid by way of salary and bonus, including any bonus paid to you under this agreement.

It is agreed that computations of such profits and losses shall be made by Wallace K. Ginsberg & Co. in the usual manner and by the usual methods employed by the Company and that its decision on all the elements entering into such computations shall be final.

You, on your part, agree during the time of your employment hereunder, to devote your entire time and energy to the duties of said employment, and you agree further that the mark-ups and general policy of said departments shall at all times during your said employment be satisfactory to Wallace K. Ginsberg & Co.

It is understood and agreed that this agreement may be terminated by either party giving the other party 30 days' notice in writing.

This agreement is written in duplicate, and it is agreed that when signed by both you and Wallace K. Ginsberg & Co. it sets forth the entire agreement between us and supersedes all previous agreements whether oral or written.

Kindly sign your acceptance on the original, keeping the copy for your own files.

Very truly yours,

Wallace K. Ginsberg & Co.

....

Vice-President

I note, accept and agree to be bound by the foregoing.

....

The per cent of increase in net profits or decrease in net losses mentioned in the second paragraph of the contract was varied from department to department in order to avoid paying large amounts of additional compensation to buyers in departments which for some reason or other had shown unusually poor operating statements in the fiscal year ending January 31, 1921. During the first six months under this new contract the company experienced some difficulty in explaining to buyers the reason for varying this per cent. This difficulty was so great in some cases that the store began to consider using a flat per cent in all departments, except those that were being promoted.

Previous to the adoption of this new form of contract the Ginsberg Co. paid its buyers a salary plus a bonus of 1% or 2% (depending upon the department) of the increase in business for the year just closed over the preceding year. This bonus was paid annually within 60 days after the close of the fiscal year. In a few departments where new buyers had been hired

or where development of the department brought about special circumstances, the store arranged to use as a quota not the business for the preceding year, but the business for the year preceding the hiring of this new buyer. This arrangement made it possible for the new buyer to secure an increase in salary if the business of the department increased and it insured that the increase in salary would bear some relation to the increase in business.

Questions

1. What advantages or disadvantages had the new arrangement with buyers in comparison with payment based on volume of business done?

2. What effect has this new form of contract on the store's accounting methods, on statistics, and on the reports to buyers and executives?

Solution

In the discussion of this problem it might be brought out that during the last year in which the old method of compensation was used, that is, fiscal year 1920, the store had one buyer who showed a net loss for the year of $10,000, but who, nevertheless, received a bonus of $9,000 because of his increase in volume of business. This situation was brought about by the fact that the buyer watched his mark-up very closely, aiming to get little if any more than was required, and the fact that during December, 1920, and January, 1921, conditions in the trade enabled the buyer to take large mark-downs and thus to increase his sales.

This same buyer working under the new contract in the first six months of 1921 increased his mark-up from 28% to 31% and also reduced his expenses. Instead of working solely for volume of sales, as he was in the preceding year, the buyer was now working for both profit and volume.

General Administration 4

Parrish & Glover—Buyers' Contracts

Previous to January 1, 1921, the buyers in the department store of Parrish & Glover, in a southern city, worked under the provisions of contract A. During 1919 and 1920 the management of the store became dissatisfied with this form of arrangement and worked out a new contract, contract B, on which were based all agreements with buyers for the year beginning January 1, 1921. The two contracts are as follows:

CONTRACT A

This Agreement, made this ......day of ...., 19..., by and between Parrish & Glover, a corporation duly organized and existing under and by virtue of the laws of the State, and conducting a Department Store in the State of ...., hereinafter referred to as the party of the first part, and .... of the town ....city of ...., State of ...., hereinafter referred to as the party of the second part,

WITNESSETH

Whereas, the party of the second part was on the ......day of ...., 19..., and now is in the employ of the party of the first part at its aforesaid Department Store:

Now, Therefore, the parties hereto agree one with the other as follows:

First.—The party of the second part hereby agrees to faithfully and diligently serve the party of the first part as buyer and in such other employment, business and affairs as the party of the first part may from time to time designate, in its said department store and to give up his entire time thereto during the existence of this agreement.

Second.—The party of the first part agrees to pay the party of the second part in full compensation for such services from the 1st day of January, 1919, to the 1st day of January, 1920, or during such part of said period as the party of the second part continues to be in the employ of the party of the first part and continues to perform the duties assigned to him by the party of the first part satisfactory to the president and vice-president of Parrish & Glover in their sole judgment and discretion free from the control of any Court, ...ten per cent (10%) of the net profits of the business of the party of the first part conducted at the said store.

Third.—The said words "net profits" shall be held to describe the sum remaining of the gross profits, earnings, incomes and receipts of the property and business of said store from all sources after deducting therefrom all the expenses and carrying on its said business and all the expenses of maintaining, operating, renewing, replacing and repair-

ing its property and premises including such reasonable improvements thereof and additions thereto as shall be necessary for the safe, proper and economical operation and conduct of its business and also after deducting all State and real estate taxes or assessments imposed upon or against the said property and business or the incomes and earnings thereof and all unsecured and other indebtedness arising from any of its business operations including said maintenance, operation, renewal, replacing and repair of said property and premises and such reasonable amount for depreciation and for working capital and improvements as shall seem necessary in the discretion of a majority of the directors of the Company.

Fourth.—The party of the second part shall under no circumstances be entitled to the whole or any part of said percentage of the net profits for any given year or part of year computed as above described until two (2) months after the closing of the books of the party of the first part for that fiscal year covering the period during which the party of the second part shall be entitled to said percentage.

Fifth.—The party of the second part hereby agrees not to assign or attempt to assign any of his rights herein provided for and it is expressly understood and agreed that all of the rights of the party of the second part under or by virtue of this contract shall immediately come to an end upon any assignment or transfer or upon any attempt by the party of the second part to assign or otherwise transfer any or all of his rights under this agreement, and any such agreement or transfer shall be null and void.

Sixth.—If the period of time during which the party of the second part is to receive such percentage shall cover only a part of the fiscal year of the party of the first part, the party of the second part shall not be entitled to the aforesaid net profits for the specific months of the year and fractions thereof of his employment, but to that part of the said net profits of the entire fiscal year or half-year as the length of time of his employment during which he is entitled to the aforesaid percentage of net profits bears to the period of one year or half-year as, for instance, if the party of the second part is employed only during the months of May and June of a certain fiscal year or fiscal six months he will be entitled to one-sixth or one-third part of the aforesaid percentage of net profits of the fiscal year or half-year embracing said months of May and June.

Seventh.—It is further understood and agreed that either party shall at all times have the right to terminate this agreement by giving the other party one (1) month's notice in writing, by giving the notice to the party to be served personally, or by mail addressed to the party to be served at the address last known to the party giving the notice.

Eighth.—This contract is to take effect as of the ....day of ...., 19..., and supersedes and takes the place of any existing agreement (if there should be any), either written or oral, between the parties hereto relating to services performed since

........................., 19..., and compensation therefor, and any compensation paid or earned since...............1st, 19..., shall be readjusted in accordance with the terms of compensation herein provided.

Ninth.—It is further understood and agreed that the decision of the said president and vice-president, or either of them, as to the amount of net profits upon which said 10% shall be based, as to the correctness of the figures contained in all inventories and of the manner of taking such inventories as well as upon any and all other questions arising under this contract shall be final and conclusive upon the parties hereto in their or his sole judgment and discretion free from the control of any Court, and the agreement of the party of the first part to pay said percentage as herein provided is conditioned upon the acceptance of this provision by the party of the second part.

Tenth.—The party of the first part agrees that the party of the second part may draw monthly the sum of..........dollars ($.........) during the existence of this agreement as compensation for his said services whether the percentage of net profits hereinbefore provided shall be less than the aforesaid drawing account or not. The amount so drawn by the party of the second part shall be considered, as far as it extends, as payment of or on account of percentage of profits to be paid to the party of the second part under Section Two hereof. The amount of the said drawing account shall, however, be included in the.................expenses in arriving at the net profits hereinbefore referred to.

Eleventh.—This agreement shall terminate on the......day of...................., 19..., unless sooner terminated by the party of the first part terminating the same in accordance with the provisions in the "Seventh" paragraph of this agreement.

In Witness Whereof, the party of the first part has caused these presents to be signed by its Treasurer and its corporate seal to be hereunto affixed and the party of the second part has hereunto set his hand and seal the day and year first above written.

Parrish & Glover

By.........................

Treasurer

....

Secretary

Witness

....(L.S.)

State }
} ss.:
County }

On this............day of..................., 19..., before me personally appeared.............................who, being by me

duly sworn, did depose and say that he resides at ....; that he is Treasurer of Parrish & Glover, the corporation described in and which executed the foregoing instrument, that he knows the seal of said corporation, that the seal affixed to said instrument is such corporate seal, that it was affixed by order of the Board of Directors, and that he signed his name hereto by like order.

State }
} ss.:
County }

On this ....day of ...., 19..., before me personally appeared ...., to be known and known to me to be the individual described in and who executed the foregoing instrument, and ....acknowledged to me that ....executed the same.

CONTRACT B

THIS AGREEMENT, made this ....day of .... 19..., by and between Parrish & Glover, a corporation duly organized and existing under and by virtue of the laws of the State of ...., and conducting a Department Store in the City of ...., State of ...., hereinafter referred to as the party of the first part, and .... of the town ....city of ...., State of ....hereinafter referred to as the party of the second part.

WITNESSETH

WHEREAS, the party of the second part was on the .... day of ...., 19..., and now is in the employ of the party of the first part at its aforesaid Department Store;

NOW, THEREFORE, the parties hereto agree one with the other, as follows:

First.—The party of the second part hereby agrees faithfully and diligently to serve the party of the first part as Buyer and in such other employment, business and affairs in and in connection with its said Department Store during the existence of this agreement, as the party of the first part may from time to time designate, and to give up his entire time thereto, and to use his best efforts in furthering the interests of the party of the first part in the conduct of its business and in co-operating to the extent of his ability to enhance the good-will of its customers and others having dealings with it.

Second.—The party of the first part agrees to pay to the party of the second part in full compensation for his services from the first day of January, 1921, while in the employ of the party of the first part, and continuing to perform the duties assigned to him by the party of the

first part satisfactorily to the representatives of the party of the first part, as hereunder constituted and hereinafter referred to as the "management" of the party of the first part, in their sole judgment and discretion free from the control of any Court, 1¼% of the net sales of Department No. 20 up to and including $500,000, 1¾% of the net sales of said Department over and above $500,000, to which result will be added 10% of the net profits of said Department, and from this sum will be subtracted the charge of 6% interest on the average stock carried in said Department during the life of this contract.

Third.—The party of the second part shall not, under any circumstances be entitled to the whole or any part of said compensation for any given year or part of year until two (2) months after the closing of the books of the party of the first part for that fiscal year, covering the period during which the party of the second part shall be entitled to said percentage, except as provided for in Section Seventh.

Fourth.—The party of the second part hereby agrees not to assign, or attempt to assign, any of his rights herein provided for, and it is expressly understood and agreed that all the rights of the party of the second part, under and by virtue of this contract, shall immediately come to an end upon any assignment or transfer or upon any attempt by the party of the second part to assign or otherwise transfer any or all of his rights under this agreement, and any such assignment or transfer shall be null and void.

Fifth.—It is further understood and agreed that either party shall at all times have the right to terminate this agreement by giving the other party one (1) month's notice in writing, by giving the notice to the party to be served personally, or by mail addressed to the party to be served at the address last known to the party giving the notice.

Sixth.—The "management" hereinbefore referred to shall consist of such representatives of the party of the first part as may from time to time be appointed by its Board of Directors for this purpose; and it is further understood and agreed that they shall have full power and authority to determine all questions arising under this contract, free from the control of any Court, affecting the amount of net sales and average stock and as to the correctness of the figures contained in all records and of the manner of taking such records, value of merchandise, expenses chargeable to said Department, and all other questions involving the determination of net profits upon which said compensation shall be based, as well as the character of service rendered by the party of the second part in the course of his employment, and in the carrying out on their part of this agreement, and all other questions involving the use of their discretion, and their determination shall be final and binding on the party of the second part on all or any of such matters; and the agreement of the party of the first part to pay said compensation as herein provided is conditioned upon the acceptance of this agreement by the party of the second part.

Seventh.—The party of the first part agrees that the party of the second part may draw monthly the sum of .... during the existence of this agreement for compensation for said services, whether the said compensation to which he shall be entitled shall be less than the aforesaid drawing account or not. The amount so drawn by the party of the second part shall be considered, so far as it extends, as payments of or on account of the arrangement as set forth in Section Second hereof, to be paid to the party of the second part. If, at the end of the period of service embraced in any fiscal year, the above mentioned compensation determined at the time provided by Section Third hereof should exceed the total monthly payments drawn by the party of the second part within said period, such excess is to be paid by the party of the first part to the party of the second part within two (2) months after the respective closing of the books as provided for in Section Third hereof. It is understood and agreed, however, that such excess payment is not to be made unless the value of the merchandise on hand in Department No. 20 is satisfactory to the merchandise management; and further, the party of the second part agrees with the party of the first part that under no circumstances will any merchandise in Department No. 20 which was received 12 months prior to June 30th, or December 31st, be counted of value on these dates. In case no physical inventory is taken on June 30th or December 31st, the value of merchandise older than the periods mentioned above will be eliminated by reductions, said reductions to be taken by direction of the merchandise management.

Eighth.—This agreement shall terminate on the 31st day of December, 19..., unless sooner terminated by either party terminating the same in accordance with the provisions in Section Fifth hereof.

Ninth.—This contract is to take effect as of the 1st day of January, 1921, and supersedes and takes the place of any existing agreement (if there should be any), either written or oral, between the parties hereto relating to services performed since ...., 19..., and compensation therefor, and any compensation paid or earned since .... 1st, 19..., shall be readjusted in accordance with the terms of compensation herein provided.

Tenth.—If the party of the second part should hold over in the employ of the party of the first part after the termination of this contract, it is understood and agreed that all of the provisions of this contract, including the right of terminating it on one month's notice, shall govern as far as applicable.

In Witness Whereof, the party of the first part has caused these presents to be signed by its Treasurer and its corporate seal to be hereunto affixed and the party of the second part has hereunto set his hand and seal the day and year first above written.

Parrish & Glover

By ....

Treasurer

Attest:

........................*Secretary*

........................*Witness* ....(L.S.)

State of .... }
} ss.:
County .... }

On this ....day of ...., 19..., before me personally appeared ....who, being by me duly sworn, did depose and say that he resides at ....; that he is Treasurer of Parrish & Glover, the corporation described in and which executed the foregoing instrument, that he knows the seal of said corporation, that the seal affixed to said instrument is such corporate seal, that it was affixed by order of the Board of Directors, and that he signed his name thereto by like order.

State of .... }
} ss.:
County of .... }

On this ....day of ...., 19..., before me personally appeared ...., to me known and known to me to be the individual described in and who executed the foregoing instrument and acknowledged to me that he executed the same.

Questions

1. What factors should be taken into account in determining the method of paying buyers?

2. Which of these two contracts provides the more satisfactory method?

3. Aside from the method of paying buyers, which contract is likely to be more satisfactory to the firm and cause less friction with the buyers?

General Administration 5

Fitz James, Incorporated—Women vs. Men as Store Managers

In the spring of 1917 the firm of Fitz James, Incorporated, opened a chain of four candy stores in a large city of the Middle West. These stores were planned by the best architects in the city and were furnished with up-to-date fixtures; they were recognized by the trade as the most modern stores in the city. In the course of the summer and fall six more stores were opened, three of them being in the downtown or office district, and by June, 1918, 14 stores were in operation. In addition the chain was making plans to invade the smaller surrounding cities within a radius of 100 miles. In 1921 the chain had its 14 stores in the home city and 18 others in the outlying towns. In most cases these were distributed one to three to a town, but one of the larger cities had seven stores. Fitz James manufactured all its own candies and marketed them both in packages and in bulk under its own name. In some of the stores in the home city, notably those in the office district, a soda and lunch bar had been added. In this business, as in the candy, merchandise was manufactured by Fitz James and sold under the firm name.

When the chain was started in 1917, the plan was to have a man as manager and a staff of from eight to ten salesgirls, of whom not more than five or six should be on duty at any one time. As new stores were added, the managers for these stores were selected from among applicants who had had experience in the retail candy business. The successful applicants were then trained for a short period under the managers of one of the existing stores.

In the early experience of the chain it was found that women made by far the better salespeople. In the first place most customers preferred to be sold candy by women. The product was light and delicate, and women, especially young women, were able to acquire a finesse of salesmanship which men could not attain; in addition a considerable proportion of the store's customers were men; further, it became evident that the retailing of candy was a housekeeping problem to a greater extent than perhaps any other kind of retailing. The stores had to be neat, clean, and attractive. In dressing show windows

and cases and in arranging displays upon fixtures women could produce results much more artistic and in better taste than could men.

For these reasons it was found expedient to give to each store manager a woman assistant. She was in charge of the displays and of the general housekeeping in the store. It was found that these women assistant managers were much more original in their display ideas than the men had been and that frequently there was a conflict of ideas between the woman assistant and the man. In the judgment of the central office the woman was usually right. As a result the woman assistant manager gradually became more and more the merchandise head in the store, while the manager became more a floorwalker and bookkeeper.

For these reasons and for the additional reason that the existing arrangement provided no understudy for the position of manager, it was decided to eliminate the men managers in a few of the stores and place the women who had been assistant managers in complete charge. In the stores where this arrangement was tried, it was found that the women were just as efficient in ordering and in the clerical and system work as the men had been, and that there was a distinct improvement due to the direct contact between headquarters and the store representatives in matters of merchandising and display. Accordingly the chain adopted the policy of substituting as rapidly as possible women for men as managers. This policy was adopted even in those stores in the business section of the home city where soda and lunch bars had been established and where a large number of women customers were served. It was found that women handled these stores as satisfactorily, if not more satisfactorily, than the men had done.

Questions

1. Was the Fitz James Company justified in believing that its policy of substituting women for men as store managers would be advisable in the long run?

2. The company plans to expand into a nation-wide chain of candy and soda stores.

3. If this expansion is undertaken, should the company continue the policy it has adopted?

1. EXECUTIVE

b. EDUCATION AND PAYMENT

General Administration 6

Nation-Wide Grocery Stores Corporation—Personnel and Real Estate Policies

The Nation-Wide Grocery Stores Corporation was organized in the summer of 1921, to take over and combine several chains of grocery stores throughout the country. The firm planned to purchase a chain operating in and about a mid-eastern city and having 455 stores; a chain with central offices in a Massachusetts city having 275 stores in eastern New England; a chain of 291 stores operating from headquarters in a New England city, and extending over the western half of the state of Connecticut; a chain of 195 stores in Maryland and the District of Columbia; a chain of 344 stores in northeastern Ohio; a chain of 176 stores in western Ohio and Michigan; and a chain of 287 stores in northern Illinois and southern Wisconsin. These chains were combined to give the Nation-Wide Grocery Stores Corporation 2,023 retail outlets between the Mississippi River and the Atlantic Coast, north of the Ohio and the Potomac. The corporation planned to increase the number of stores in this region as fast as business warranted and in addition to buy up new chains throughout the country.

It was planned that the main offices should remain in the East and that the major questions of policy should be decided there. There also would be done as much of the buying for the chain as could be done at a distance from the district offices and at a date well in advance of the time when the merchandise would be placed on sale. The identities of the several chains were to be destroyed and all stores were to bear the name of the Nation-Wide Corporation. The plan was, however, for each chain to be operated as a unit as regards most of the buying and warehousing of merchandise, the supplying of merchandise to the stores, and the supervision of store managers. An elaborate statistical system was devised to enable the main offices to follow closely the activities of each of the component chains.

Early in the work of organizing the corporation there arose the question of personnel policy, involving the securing and

training of store managers. The men who originally conceived the idea of this consolidation of stores hoped to make the store managers of the chain conspicuous for courtesy, knowledge of merchandise, and general all-round ability. It was hoped that these characteristics, coupled with the low prices at which the chain would be able to sell, would make the Nation-Wide Stores safe against competition.

One of the organizers of the corporation, a vice-president in the corporation, was charged with the work of laying out the details of the personnel and training policy. This vice-president, after considerable study, submitted to the Board of Directors a report which embodied principles and methods as follows:

Wherever possible, store managers should be trained in the stores of the larger cities. There competition would be keener and store managers and store personnel in general would have to be more wide-awake and alive to the conditions around them. As these men became more worthy of confidence, and as they grew in responsibility, it was his plan to transfer them to smaller places. This method he thought would increase the alertness of managers and would tend to prevent the development of more or less slow and inefficient store managers in the smaller communities. The vice-president, even though he suggested that the managers be recruited in the city and receive their first experience in actual work in the cities, was quite willing that men from the country be chosen.

After having been accepted by the employment department, all applicants for positions as store managers were to be sent to school for two weeks. Several of these schools for prospective store managers were to be established in the various cities where the chain operated. The exact site for these schools was to be determined by the number of men from that locality which the chain would be called upon to train. While in this school, which would meet from 8:30 a. m. to 5:00 p. m. daily, the men were to be paid at the same rate they would earn while serving their initial period in the stores.

In the Nation-Wide School, five courses were to be given: Salesmanship, Retail Merchandising, Storekeeping, Scientific Store Control, and Merchandising.

The course in salesmanship was planned to develop in the men the courtesy, ease of address, even temper and personal

magnetism which it was hoped would characterize the representatives of the chain. In addition, this course would instruct prospective managers in the use of suggestions which, tactfully made in the course of the sale, might increase the amount of the sale by reminding the customer of merchandise which she needed, but had forgotten, or by suggesting other articles which had not occurred to her.

Students would be taught also to be unusually careful with particular customers, the course making the point that a salesperson who could please a customer of this type should receive much more credit than one who could please a customer who was easily satisfied. This, of course, was but another application of the theory of courtesy.

The course in retail merchandising, in the first place, was to show how store managers should watch their stocks in order to make sure that they always had sufficient merchandise to meet the needs which might arise. Secondly, it was to show them how to keep merchandise in good condition and at all times presentable to customers. Finally, the course would instruct managers in the principles governing retail distribution and in the psychology connected with retail selling; for example, the course was to teach that customers prefer to see a store full of merchandise and that, therefore, the store manager should keep his bins and shelves filled with stock at all times, using empty cartons or other dummies in case actual stock was low, or in case it was not wise to carry as much actual stock as would be needed to fill the shelving.

Under the heading, Storekeeping, a course was planned which would teach methods of order, methods of studying the nature of the clientele and its needs, the information with regard to the store which the manager should keep as statistics or sales records, methods of inventory, and similar subjects connected with the administration of the unit store. This course was to merge more or less with the course called Scientific Store Control, which would deal with the methods by which the district sales managers and the main offices controlled and supervised the individual stores. In this course, also, were to be included the problems of layout and display within the individual stores.

The last course, that in merchandising, was to take up the study of the commodities carried in the various stores, explain-

ing where each commodity came from, how it was prepared for market, something of the methods by which it was marketed, how to care for it in the store, and how the commodity was prepared for the table. This course, it was hoped, would develop each store manager into a grocer's encyclopedia and would help him to gain more rapidly, when he went out into a store, a thorough knowledge of the merchandise which he was handling each day.

After spending two weeks in this school, prospective store managers were to go from four to six weeks into some store in the city in which the school was located. This store was to be designated as the training store, and would be selected because its manager was peculiarly fitted to explain the store system and the store principles to beginners, as well as because the store was a model from the point of view of stocks carried and alertness of personnel, and because it illustrated representative problems.

In addition to the work of the school and the instruction which would be given in the training store, each prospective manager was to be supplied with a copy of the Nation-Wide Grocery Stores' Corporation Manual, which was to be a combination of text-book and rule-book. A good idea of the manual and its purpose can be gained from the following quotation from the introduction to the book:

> The purpose of this manual of instruction is to outline the policy of the Nation-Wide Grocery Stores Corporation and to state the simple but indispensable requirements with which it is necessary for everyone in our employ to be familiar. Nation-Wide Grocery Stores' managers are our only real representatives. Our customers come into contact only with these managers; therefore, the customers' good opinion and the good will toward the corporation depends entirely upon the manner in which these managers represent us.
>
> The object of this book is to put into print a statement of the Nation-Wide Stores' policy so that all may know alike just how we would be represented and must be represented if we would succeed. The success of every manager in our employ depends almost entirely upon his ability to interpret and properly to express the sentiment and spirit of the rules and suggestions laid down in this book.
>
> Besides well-located and well-appointed stores, the company itself will always furnish better average values to the customer than can be found elsewhere, and beyond this solid foundation everything is up to its managers. Every manager should always bear in mind that

increased earnings for himself can come only with increased business. Increased business can come only by increasing the number of customers of his store, and the only way ever discovered for increasing the number of customers in a store is to please every customer so well that he will come back again and bring his friends and for no other reason than that he has been well treated and is convinced that he has received more for his money than he can get elsewhere.

In making this book our manual we hold our employees to a strict accountability under it on the theory that its contents are familiar to them. No pretext will be regarded that pleads ignorance of the rules and suggestions as laid down in this manual.

The manual as planned then went on to explain how persons seeking employment with the Nation-Wide Grocery Stores Corporation might make their applications, how promotions would be made in the stores, and the value of loyalty and honesty in securing those promotions. On the subject of courtesy it was planned that the manual should say something as follows:

An organization like the Nation-Wide Grocery Stores Corporation, which is constantly in touch with millions of people, can have no asset greater than an established reputation for courtesy to its customers. This reputation must be created and upheld from day to day by the men behind the counters. The best that the general management of the corporation's business can accomplish will amount to little if store managers fail in this respect.

All the pains taken and money spent to make Nation-Wide Grocery Stores attractive will be sheer waste of effort unless every customer goes out in good temper. Politeness costs nothing, but it has a value in such an enterprise as this beyond measure in dollars and cents.

The Nation-Wide Corporation has determined to outdistance all competition in this as in other elements of the business, and its store managers must lend their support to that effort.

Every purchase, without fail, should be acknowledged with a genial "Thank you, sir," or "Thank you, madam," or some variation of the phrase; as for example, "Many thanks," or "Much obliged to you." Whatever acknowledgment is made should be spoken out loud and in such a manner that the customer will know that it is genuine. Under no circumstances must this rule be violated.

Misrepresentation of any article offered for sale in the Nation-Wide Stores is strictly forbidden. The good will of our stores is chiefly in the managers' hands, and this good will rests largely upon the confidence which the customers have in us. Be as particular as possible in describing the character of the goods offered. Tell the customer exactly what the product is made of.

Managers must, on receipt of money from customers, call out in the hearing of the customer the denomination of the bill or coin received. This method will usually obviate mistakes as to the amount of money in hand. If, however, mistakes are made, and if they cannot be readily adjusted by the manager and the customer, they should be reported to the store superintendent for his action. In all cases, however, the customer must be treated with the utmost courtesy, and no statement must be made which the customer might interpret as reflecting on the honesty of his or her intention.

Managers should make a special effort to be affable at all times. As a rule, a cheery word or two while waiting on a customer will serve a useful purpose, and this apart from anything said in the line of business. The manager's good judgment should tell him when to talk and when to keep silent. Learn what human nature is and be governed accordingly. Look the customer straight in the eye when you address him, and show him that he is your sole concern for the time being.

In addition it was planned that the manual should contain instructions for registering sales, for closing the cash register at night, and a large number of suggestions on courteous treatment of customers, avoidance of arguments, and the reduction of friction to a minimum. Other departments of the manual were to bear such titles as, Salesmanship, Care of Stock, Store Relations With the Office, Window Decoration and Store Display, and Hours of Duty.

The manual was to close with a careful explanation of the methods of paying managers with prizes and bonuses. Also, the corporation planned a rather elaborate organization for giving medical aid and financial assistance to employees in need of such; this organization was to be explained fully in the manual.

Another of the organizers of the corporation, the man who had been elected treasurer, was especially interested in matters of real estate and store location. He had been asked by his associates to develop an organization to have charge of the work of securing locations for new stores and of securing better locations for existing stores. The plan finally developed by this officer involved the organization of a subsidiary corporation known as the Nation-Wide Grocery Stores Realty Corporation. All the stock in this corporation was to be owned by the Nation-Wide Grocery Stores Corporation, and the offices of the realty corporation were to be adjacent to the mail office of the stores corporation. It was planned that this corporation at the outset

should have three branch offices in addition to this central office. An office located in Massachusetts would have charge of all real estate business in the Massachusetts and New England district north of the northern boundary of the State of Connecticut. The main office would have charge of operations in eastern New York, Connecticut, eastern Pennsylvania, and the region covered by the Maryland and Dictrict of Columbia chain. An office would be established in Ohio to take care of all business concerning the stores in northeastern Ohio and the adjacent district of Pennsylvania and New York State. The fourth office was to be in Illinois, and it was expected that this office would handle some of the Ohio and Michigan business in addition to that arising from the operation of the Illinois chain. The treasurer considered that this subsidiary corporation would be advisable because its organization would make it much less difficult to keep the profits and the expenses of the Nation-Wide operations in real estate separate from the strictly chain store and merchandising operations. It seemed to him desirable to keep these figures distinctly separate because the corporation planned to go permanently into real estate operations, the executives believing strongly that location was of fundamental importance in the marketing of convenience goods.

Each of the four offices was to be in the charge of an expert in the real estate of that region. He was to have under him several investigators, the exact number to be determined later. These investigators were to be men capable of bargaining for terms, securing options, and making leases, as well as men able to make traffic counts and other scientific location studies. It was the treasurer's intention that whenever it seemed advisable to open a new store, the office of the real estate corporation in the proper city would be advised and instructed to report the best available location, together with second and third choices, and the terms upon which each of the locations could be secured. The final decision would be made at the main office of the real estate corporation and the local office advised to close the deal. Each local office, it was expected, would keep a file of all prospective locations investigated so that it would be able on short notice to report to the New York office on the locations which were adapted to the needs of the Nation-Wide Stores.

Questions

1. Assuming that the Board of Directors of the Nation-Wide Stores Corporation approved the plans of securing, training, and electing store managers as outlined above, what information should the corporation have required of applicants for the position of store manager?
2. What questions should have been asked to secure this information, and how should these questions have been arranged on the application blanks?
3. Should any printed matter, other than the questions, have been included either on the obverse or reverse of the application blank?
4. If so, what printed matter?
5. Should the Board of Directors of the Nation-Wide Grocery Stores Corporation have approved the treasurer's plans for organizing the Nation-Wide Grocery Stores Realty Corporation?

General Administration 7

T. Mills Atcheson & Company—Education of Assistant Buyer

In the spring of 1921, the president of T. Mills Atcheson & Company, a firm operating a large department store, employed a new educational director to take over the work of training all employees in store system, and to develop other educational work in the store. The stocks carried in the Atcheson store were divided into 54 departments, and the sales of these 54 departments totaled about $8,000,000 a year. Each department, whether or not that department had a buyer of its own, was in the charge of an assistant buyer. As the new educa-

tional director became acquainted with the store, he became more and more convinced that the organization could be strengthened if some system of educating the assistant buyers were introduced. At that time these minor executives received no training; they had to pick up their knowledge from contact with their superiors or from their own study. The educational director called this matter to the attention of the president, who suggested that, as soon as the training courses for salespeople and other similar employees were placed upon a satisfactory working basis, the educational director should undertake a job analysis of the position of assistant buyer.

By the middle of the summer the training courses for salespeople and office help had been developed to a point where it was believed that nothing more could be done until the new arrangement had been given a brief trial in practice. The educational director accordingly proceeded to the work of analyzing the job of assistant buyer. He turned in the following job analysis to the president, which was approved by the president in conference with the other major executives and the Board of Directors.

JOB ANALYSIS

Duties of Assistant Buyers

The duties enumerated below are the special duties attached to the job of Assistant Buyer. It is, of course, understood that every Assistant Buyer is a general Assistant to the Buyer and will be ready in every way to help the Buyer in the performance of his regular duties.

A. To be able to plan and forecast their own work and that of those who work with them and to lay out a program to be followed in the department the Assistant Buyer should:

1. Understand the formula for forecasting figures for the department.
2. Be familiar with market conditions.
3. Keep in touch with current events.

B. To assist in the selection of merchandise, the Assistant Buyer should:

1. Know the stock on hand.
2. Keep informed as to what is in demand. (Study want-slips).
3. Keep informed as to merchandise carried by competitors. (Study comparison shopping reports; note customers' reports to salespeople).
4. Know values to insure selection of merchandise of good quality and workmanship.

5. Have some knowledge of color and design to insure selection of merchandise conforming to principles of color and design.
6. Be able to estimate in what quantities to buy.
7. Know the best concerns from which to obtain merchandise wanted.
8. Know how to trade, in order to obtain the best possible prices and terms.

C. To assist in the marking of bills and merchandise, the Assistant Buyer should:

1. Know the rules of the receiving room.
2. Understand all forms connected with orders, withdrawals, cancellations and changes of delivery.
3. Make out each morning any orders required, according to Buyer's instructions.
4. Go each morning to receiving room to superintendent checking and marking of bills and merchandise according to instructions from Buyer.
5. Understand how to figure percentage to add to cost of merchandise according to mark-on in department.
6. See that all bills are signed each day by Buyer, or in the absence of the buyer, by the Assistant Buyer.

D. To be responsible for the keeping of stock the Assistant Buyer should:

1. See that new merchandise is sent to heads of stock and that reserve is properly placed in stockroom.
2. See that heads of stock turn in reports of slow-selling merchandise.
3. Take reductions of slow-selling merchandise with approval of Buyer.
4. See that all reductions are entered in reduction book.

E. To assist in advertising, the Assistant Buyer should:

1. Know the plans for advertising for the department each month.
2. Be able to give the advertising department the selling points of advertising merchandise.
3. See that advertisement is written, and that, where possible, merchandise to be shopped is in comparison office a week in advance.
4. Check up proof of advertisement as to price quoted.
5. See that merchandise is in house before advertisement is printed.
6. Prepare for a sale by
   a. Having signs made.
   b. Taking reductions and supervising mark-down of merchandise when necessary.
   c. Having sales merchandise ready for department before the day of sale.

d. Taking correct mark-up if necessary after the sale.
e. Notifying floor superintendent of need for extra help, several days in advance.

7. Cooperate with window-dresser in selection of merchandise as to color and display value.
8. Be responsible for condition of merchandise to be put in windows.
9. Know what articles of merchandise are to be put in windows.
10. Know what other departments have merchandise in windows.
11. Watch competitors' advertisements and keep salespeople informed daily.

F. To supervise the taking of inventory, the Assistant Buyer should:

1. See that stock is prepared for taking of inventory.
2. Keep a record of stock sheets.
3. Check up all listing sheets when inventory is finished.
4. See that all stock in department, return-goods room, stockrooms, windows, and interior displays is taken.
5. See that stock in receiving room for which bills have been passed is taken.
6. See that stock sheets are in hands of bookkeeping department on inventory night.
7. See that merchandise checked after inventory on bills dated prior to inventory are marked with regulation red-ink stamp, "Not taken in stock."

G. To be responsible for appearance of department, the Assistant Buyer should:

1. See that merchandise is advantageously placed and displayed.
2. See that arrangement of merchandise in department is orderly.
3. Know how each stock should be kept and direct heads of stock in keeping it.
4. Be responsible for keeping tickets and tags on merchandise in good condition, by replacing when necessary.

H. To be responsible for service rendered customers in department, the Assistant Buyer should:

1. Cooperate with floor superintendent and floor man in maintaining a high service standard.
2. Instruct salespeople, in the absence of Buyer, in quality, price, workmanship and location of each new article of merchandise sent to department.
3. Impress salespeople with value of merchandise.
4. Explain slow-selling merchandise and urge effort to move merchandise quickly.
5. Be able to set an example of excellent salesmanship.

6. Set an example of conduct by obeying the rules of the house.
7. Assist in the adjustment of merchandise complaints, taking a reduction in reduction book when necessary.
8. Understand plan for rating employees.

The President, after he had approved the job analysis as quoted above, asked the educational director to draw up an outline of a course of study which would prepare the assistant buyers for their duties. The educational director spent some time in this work and finally submitted the following outline:

I. Forecast

An explanation of the planned figures on a Department Forecast Card.

A. *Sales* (planned this year) depend on

I. *The Physical Condition* of the Department. The size of the department and the opportunity to expand is taken into consideration.

II. *The Organization* of the Department. Cooperation of buyer, assistant and salesforce is a factor considered.

III. *The Assortment* of Merchandise. We must see if we are limited in buying power as compared with our competitors. If we are, recourse must be had to the Zoning System. To meet competition as best we may with a limited buying power, stock is added at the fast-moving prices.

IV. *The General Market.* From every possible source information is obtained as to whether or not the public is inclined to buy.

If, after several months, a department fails to meet its planned figures the buyer is consulted as to whether a selling campaign, advertising, or special prices will help. These failing, the department forecast cards for several previous seasons are gone over. If the department has consistently failed to meet its planned figures an effort is made not to over-plan again.

B. Purchases and Purchase Limits

I. *Limits this year* can be best explained by an example of figures for an imaginary department. Dept. X has an average mark-on of 33.33%.

a. Sales of last year ($300,000) reduced to cost $200,000
b. Planned stock on hand at end of season 100,000
c. Stock on hand at beginning of season 75,000

$$a+b-c=\text{Purchasing Power.}$$

$$\$200,000+\$100,000-\$75,000=\$225,000$$

d. Purchasing power of Dept. X $225,000

The purchasing power is divided between the six months of the season according to market conditions and previous experience and is entered under *Limits This Year.*

II. *Limit Adjusted on Account of Sales.*

Actual sales of Dept. X in July	$60,000
Sales of last year in July	50,000
Difference—($60,000 – $50,000 = $10,000) reduced to cost	6,666
Limits this year for July	35,000
Limits adjusted on account of sales in July ($35,000 + $6,666)	41,666

III. *Over or Under Limit*

The amount in this space is entered in red if the *Actual this Year* (amount spent) is over the limit adjusted for the month, and is entered in black if it is under. For instance:

Actual This Year (amount spent) for July	$40,000
Limits This Year for July	35,000
Limits Adjusted on Account of Sales for July	41,666
Under Limit ($41,666 – $40,000) entered in black	1,666

IV. *Limit Adjusted to First of Month*

Limits this year for August	$30,000
Under limit for July	1,666
Limits adjusted to first of month for August ($30,000 + $1,666)	31,666

C. Stock (planned this year)

I. The actual method of arriving at the planned stock figures can again be explained by Dept. X.

Stock on hand at beginning of season	$75,000
Limits this year for July	35,000
Last year's sales for July ($50,000) reduced to cost	33,333

$75,000 + $35,000 – $33,333 = $76,667

Planned stock for July	$76,667

Our planned stock is in accord with our planned sales. Therefore, if our actual sales are behind, the department is analyzed. Unless it is decided that the season ahead will sell out—buying is curtailed, and is made just sufficient to keep assortments complete. If at any time it is found desirable to have a higher zone, additional stock must be planned for.

D. Advertising (% planned this year) depends on

I. *The Reputation of the Department.* A well-established department which has carried for many seasons a full assortment of

merchandise and has rendered uniformly good service may be expected to meet its planned sales with a small percentage of advertising. A new department, a department whose location has been altered, or one whose merchandising policy has been changed, must be allowed a larger percentage for advertising.

E. Gross Profit (planned this year) depends on

I. *Rapidity of Turnover.* When the number of turnovers in a department is large a smaller gross profit will result in as large a net profit at the end of the season as there will be in a department where the number of turnovers is small.

II. *Amount of Reductions.* Rapid turnover necessarily means small reductions. As gross profit must cover reductions, a rapid turnover with resulting small reductions will require a smaller gross profit.

III. *Department Expense.* Location, fixtures, salaries, stockrooms, warehouse and all other overhead are included in department expense. Gross profit must cover these.

An average percentage of profit for the department is set and is adjusted to months according to previous experience. Planned gross profit is figured on Planned Sales.

II. MERCHANDISE ORDER

Orders

1. A merchandise order is a written confirmation of a verbal order.
2. It is made out in three parts.
3. The triplicate remains in the buyer's order book.
4. The other two parts, original and duplicate, go to the Merchandise Manager for authorization of the order as to merchandise and money.
5. Then they go to the treasurer's office for authorization of the order as to money.
6. Finally they go to the invoice and order room to have the terms verified with our records of manufacturers.
7. The order is entered in the *Order Register*, a loose-leaf order record by departments.
8. From the *Order Register* an *Open to Buy* report is made up weekly and sent to the merchandise office.
9. The original copy of the order is sent to the manufacturer.
10. The duplicate is filed by department under manufacturer.

Receiving and Bill Room

1. Merchandise is received at the door.
2. Merchandise and bill are given the same number.

3. Bill comes to the bill room.
4. The bill numbers are checked off to see we have all the bills.
5. Paster is attached to bill.
   a. Pink for 10 days.
   b. Yellow for extra dating.
6. Bill is entered on *Bill Register*.
7. Bill is checked against order in the bill room.
8. If merchandise is sent a month in advance a *withdrawal* must be made by the buyer.
9. If bill is greater than order an additional order must be put through by buyer.
10. Bill goes to receiving room to be checked against merchandise.
11. Buyer places retail price on bill opposite item in red ink.
12. Merchandise is marked accordingly.
13. Merchandise is inspected by receiving-room supervisor and department representative.
14. Merchandise is sent to forward or reserve stock.
15. Bill is checked in department with buyer's copy of order.
16. Bill is approved by buyer and is returned to receiving room.
17. Receiving room O. K.'s bill.
18. Bill is returned to bill room and is checked off on *Bill Register.*

Invoices

1. Bills or invoices are sent to Statistical Division.
2. Bill is computed to see figures are correct.
3. Total retail and per cent mark-on at retail are determined.
4. Bill is entered on *Invoice Purchase Journal Sheet.* (Cost and selling prices are both entered.)
5. Assistant buyer checks invoices each month with *Invoice Purchase Journal Sheet.*
6. Selling price on *Invoice Purchase Journal Sheet* is used to determine inventory.
7. This is later reduced to cost at the average percentage of mark-on for the department. Therefore, if the sale of merchandise is made at a price other than that shown on the invoice, and a proper mark-up or mark-down is not recorded on the *Invoice Purchase Journal Sheet* ,a shortage or overage will appear at inventory time.

III. Mark-On

Mark-on is that percentage of selling price which is gross profit.

A. Planned percentage of mark-on

I. Determined according to

a. Number of turnovers

b. Amount of reductions
c. Department overhead

II. Adjusted to months according to
a. Experience
b. Market conditions

The Merchandise Office attempts to establish a fair percentage of mark-on. The buyer should attempt to maintain that percentage, and not to show a higher average percentage at the end of the season.

B. Actual Mark-On

I. Determined by buyer according to
a. What comparison shows competitors are doing
b. What he thinks customers will pay
c. Whether merchandise is staple or novelty
d. Which zone is to be reached
e. Time of season

Overstocking and slow selling must be avoided. Good "buys" from manufacturers at low cost should not be marked at a high per cent, as competitors can often make as good "buys" as we can. It is also good advertising to sell at a low price when we can. Heavy stocks or poor "buys" should be marked low to turn over as rapidly as possible. One should not try to make up for a low mark-on by putting a high mark-on on other merchandise. A low mark-on must be offset by increased business.

C. Percentage of mark-on

I. Figured on selling price

Since percentage of mark-on is figured on selling it is desirable to know how to change that percentage to a percentage on cost for the purpose of figuring the actual amount of mark-on. For example:

Percentage of mark-on at selling.................... 33.33%

$$100 - 33.33 = 66.66\%$$
$$33.33 \div 66.66 = 50\%$$

Percentage of mark-on at cost...................... 50%

Proof:

Selling price of merchandise........................150%
Cost of merchandise................................100%

$$\text{Mark-on } (150 - 100) = 50\%$$
$$50 \div 150 = 33.33\%$$

Percentage of mark-on at selling.................... 33.33%

$$50 \div 100 = 50\%$$

Percentage of mark-on at cost...................... 50%

MARK-ON PER CENT

Cost	Selling
100%	50%
53 7/8	35
50	33 1/3
45	31
42 6/7	30
40	28 4/7
39	28
37	27
33 1/3	25
29 7/8	23
27	21 1/4
25	20
22	18
13 2/7	12 1/2
11 1/9	10

To figure mark-on at cost at a certain per cent, multiply the cost by the per cent and divide by 100. For example:

Cost of merchandise	$3.25
Per cent of mark-on at cost	45%
Amount of mark-on	(3.25x45÷100) = $1.46

Since it is necessary to strike some zone in placing a mark-on, it is desirable to know how to figure what the percentage of selling will be if goods at a certain cost are priced to sell in a certain zone. For example:

Cost of merchandise	$ 6.75
Zone price	10.00

$$10.00 - 6.75 = \$3.25$$
$$3.25 \times 10.00 = 32.5\%$$

Percentage of mark-on at selling	32.5%

To prevent overstocking and slow selling it is necessary to buy most heavily of merchandise which can be marked at the best zone price.

Summary.—It is not desirable to make a greater percentage of profit than that planned. It is desirable rather to average the planned percentage of profit, to mark low, and to make rapid turnovers.

IV. Slow-Selling

A. What constitutes slow-selling merchandise:

1. All merchandise not of present season in style departments.
2. All merchandise more than six months old at beginning of present season in all other departments.

In seasonal departments even the new merchandise should be watched to prevent any of it becoming slow-selling. It is the duty of the Assistant Buyer to bring slow-moving stock to the Buyer's attention.

B. Method of recording slow-selling merchandise:

1. A slow-selling book kept, showing for each item of merchandise each month:
    - *a*. Season
    - *b*. Style number
    - *c*. Description
    - *d*. Number of pieces
    - *e*. Price
2. Items of merchandise of same season grouped together.
3. Entries made and slow-selling books returned to office the 10th of each month.

C. Reasons for slow-selling merchandise:

1. Wrong price	3. Wrong color
2. Wrong style	4. Wrong size

D. Means of moving slow-selling merchandise:

1. Group in one section of department
2. Instruct salespeople in selling it
3. Have salespeople turn in a list daily of slow-selling merchandise they have sold
4. Take sufficient reductions
5. Push merchandise in corresponding season

An effort should be made to get some action on every item of slow-selling merchandise each month. A department is expected to move 100% of its slow-selling merchandise each season. At the beginning of each season a whole extra season's stock on hand becomes slow-selling. In most cases where business has been slack in a department it has been proved that the department was loaded up with slow-selling merchandise.

V. Price Ranging

A range is a limited space. In price ranging the selling prices form the limits for each range. Each kind of merchandise has its own ranges limited by its own selling prices.

Purpose of Ranging.

1. To reduce number of prices.
2. To find best selling prices.
3. To build up large assortments behind best selling prices.
4. To place investment to best advantage.
5. To cut down reductions.

6. To make selling easier.
7. To keep track of stock more easily.

Method of Ranging.

1. Determine number of stock divisions or classifications.
2. Note present price range for each.
3. Condense number of prices.
4. Keep a price book.

Method of Keeping Price Book.

1. Make up a sheet for each division of stock with months down left side and prices across top.
2. Enter under each price the units on hand at date of starting.
3. Enter under each price in red ink the number of units purchased during the month.
4. Enter at the beginning of each month under each price the number of units on hand.

Sales may be determined by stock at beginning of month plus purchases, minus stock at end of month.

VI. Reductions

A. Reasons for taking reductions:

1. To stimulate sales in department.
2. To sell damaged merchandise.
3. To move slow-moving stock.

B. Method of taking reductions:

1. Assemble entire line of stock to be reduced in stockroom and department.
2. Count items to be sure all are marked and that total amount of reduction is correct.
3. Mark every item.
4. Record reduction immediately on reduction sheet.
5. Leave duplicate of reduction sheet in reduction book.
6. Send original to merchandise office for signature.

Mark-ups are taken in the same way. The merchandise manager holds the mark-up book.

All departments are charged with merchandise from the retail price on the bills. If any change is made in that price and no record is made of the change the department will be short or over when inventory is taken to the extent that every unit has been reduced or marked up.

Care should be exercised to put through a reduction or mark-up for any piece of credited merchandise whose price has been changed.

VII. Merchandise Examination of Office

A. Examination of New Merchandise for

- I. Composition of material in
  - *a*. Wool garments
  - *b*. All-wool yard goods
  - *c*. Silk garments
  - *d*. Silk yard goods
- II. Fastness of dyes in
  - *a*. Ready-to-wear
  - *b*. Draperies
  - *c*. Bathing suits
  - *d*. Sweaters
- III. Workmanship in
  - *a*. Ready-to-wear
  - *b*. Men's clothing
  - *c*. Men's furnishings
  - *d*. Infants' wear
  - *e*. Umbrellas
  - *f*. Leather goods

B. Examination of returned merchandise to determine whether

- I. Fault of merchandise
- II. Fault of salesperson
- III. Fault of customer

C. Making up of color card for season for

- I. Silks, to be followed in
  - *a*. Gown department
  - *b*. Misses' department
  - *c*. Millinery department
  - *d*. Silk department
  - *e*. Hosiery department
  - *f*. Trimming and button department
  - *g*. Ribbon department
  - *h*. Notion department
- II. Woolens to be followed in
  - *a*. Coat department
  - *b*. Suit department
  - *c*. Gown department
  - *d*. Misses' department
  - *e*. Millinery department
  - *f*. Dress goods department
  - *g*. Blouse department
  - *h*. Sweater department
  - *i*. Glove department
  - *j*. Shoe department
  - *k*. Bag department
  - *l*. Umbrella department

VIII. Comparison Office

A. Purpose of comparison shopping.

- I. To compare our price with competitors on
  - *a*. Sale merchandise
  - *b*. Regular department merchandise
- II. To compare our assortment with competitors as to
  - *a*. Style
  - *b*. Color
  - *c*. Price

III. To notify Buyers of advertised sales and window displays of competitors.
IV. To give advice as to style tendencies.
V. To report service conditions.

B. Method of comparing prices of advertised merchandise.
I. Merchandise is sent to Comparison Office with copy of advertisement.
II. All stores carrying same grade of merchandise are shopped.
III. Lower prices of competitors are reported so that ours may be reduced to meet them.

C. Method of comparing assortments.
I. Departments shopped
a. In season
b. On request from Merchandise Office.
c. According to schedule

D. Method of shopping on service.
I. Service rendered is noted in departments where merchandise is shopped.
II. Special salespeople or section managers are shopped upon request of executives.
III. Several departments are shopped each week according to schedule.

E. Process of reporting findings.
I. Typed merchandise reports are sent to General Supervisor, Merchandise Supervisor, Merchandise Manager, Buyer.
II. Samples of competitors' merchandise are brought in.
III. Typed service reports are sent to General Supervisor, Service Supervisor, and Department of Training.

IX. Credits

A. Analysis of Credits
I. Outside department
II. In department
a. Fault of salesperson, due to
1. Poor fitting of garment
2. Selling inappropriate article
3. Selling unbecoming garment
4. Selling poorly matched article
5. Making incorrect statements
6. Forcing sale

b. Fault of merchandise, due to
1. Faded color
2. Poor workmanship
3. Poor material
4. Damaged condition

B. Correction of complaints, which are due to
I. Fault of salesperson, by
a. Talks in department
b. Classes in Training Department
c. Lectures on new merchandise
d. Attention to sponsor
II. Fault of merchandise, by
a. Using Merchandise Examination Office

X. Adjustment Division

A. Purpose of an Adjustment Division.
I. To satisfy customers
II. To maintain a uniform policy for the store

B. Duties.
I. To adjust customers' complaints which cannot be adjusted in the departments.
II. To receive, analyze, and file, in addition, a record of complaints settled in the departments.

C. Kinds of complaints adjusted.
I. Delivery
II. Office
III. Credit
IV. Return Goods Room
V. Department
VI. Merchandise
VII. General store service

XI. Advertising

A. Plans for advertisements:
I. Buyer and Merchandise Manager plan amount of space for coming month, consulting last year's figures.
II. Merchandise Manager gives plans to Advertising Office.
III. Advertising Office makes final arrangements for space, in consultation with Finance Supervisor.
IV. Final plans are sent to Merchandise Manager, who notifies Buyer.

V. Merchandise Manager allots space to Buyers a week in advance.

B. System of preparing for an advertisement:

I. Buyer makes two copies of advertisement on regulation form.

II. Samples of merchandise to be advertised and copy of advertisement are sent to Conference Room at 10:30 o'clock seven days before advertisement is to be printed.

III. Merchandise is passed on for style and quality by Advertising Department and Merchandise Supervisors.

IV. Sample of Merchandise and copy of advertisement are sent to Advertising Office.

V. Sample of Merchandise and copy of advertisement are sent to Comparison Office.

VI. Proof of advertisement is checked and O. K. given when ready by Buyer, as to price and talking points.

C. Preparation in department for an advertisement:

I. Signs made if necessary.

II. Reductions taken when necessary.

III. Merchandise made ready the day before it is advertised.

IV. Floor Superintendent notified if extra help will be needed.

XII. Window Display

A. Plans for windows:

I. Merchandise Managers, Window Dresser and Advertising Manager plan special stretches.

II. Individual buyers request windows a week in advance.

III. Window Display Committee approves plans.

IV. Window Dresser asks departments for accessory merchandise.

B. Preparation for a window:

I. Merchandise is selected by Window Dresser or Buyer.

II. Merchandise is sent to Window Dressing Department the day before it is to be shown.

III. Selling departments are responsible for dressing forms and for part of arrangement.

C. Preparation in department for a window:

I. Salespeople are notified of what merchandise is in window.

XIII. Taking of Inventory

A. Preparation of stock:

I. Assemble broken lots

II. Mark down damaged merchandise

III. Mate miss-mates

IV. Sell all possible deteriorated merchandise
  a. In department
  b. On roof
V. Call Buyer's attention to unsaleable merchandise

B. Checking of records:
I. See that all bills for merchandise received have been signed and passed to office.
II. See that articles returned for credit, and all claims on manufacturers have been properly covered by "merchandise returned" vouchers.
III. See that all articles transferred to or from other departments have been properly covered by "merchandise transfer" vouchers, and that the merchandise transfer books have been sent to the statistical office.
IV. See that no bill has been charged to your department that should properly be charged to another department.
V. See that all bills charged to your department since last inventory have been checked, especially noting total selling price.
VI. See that all mark-ups and reductions are entered in their respective books.
VII. See that all proper claims are made for allowances or rebates, or freight charges.

C. Taking of stock:
I. Merchandise in department
II. Merchandise in stockroom
III. Merchandise in warehouse
IV. Merchandise in show windows
V. Merchandise on display in store
VI. Merchandise in hold room
VII. Merchandise in workroom
VIII. Merchandise out on memorandum
IX. Merchandise out of repair

D. Record of stock sheets:
I. Allot a number of stock sheets to each stock division
II. Keep a record of the stock-sheet numbers in each division

E. Listing of stock:
I. Count items of merchandise
II. Place a list of number of items in stock in each drawer or section.
III. Reduce number on list if items are sold.

F. Checking of Listing Sheets when entered on Inventory List:

- I. Have examiner call off merchandise
  - *a*. Article
  - *b*. Quantity
  - *c*. Season letter
  - *d*. Selling price
- II. Have checker check Inventory List

Questions

1. Should the store have approved this outline as it stands and established a course in accordance with it?
2. What changes should have been made, if any?

General Administration 8

Nation-Wide Grocery Stores Corporation—Method of Informing Store Managers of Changes in Retail Prices*

In the first two years of operation the Nation-Wide Grocery Stores Corporation experienced difficulty in controlling changes of retail prices in its stores. This corporation operated over an extended area, and many of its stores were so scattered that the superintendents in charge could not visit them more frequently than once in four or five days.

All changes of prices were effected from the district headquarters by means of bulletins sent out in the mail to the various store managers. These bulletins instructed the store managers to advance or reduce the prices of specified articles at a given time and to take an inventory of the stock marked up or marked down at that time. In most cases superintendents visited the store managers daily and could make sure personally

*A description of the organization and operation of the Nation-Wide Grocery Stores Corporation is given in General Administrative Problem 6, page 803, on the personnel and real estate policies of that corporation.

that these mark-ups and mark-downs were properly taken and that the inventories submitted were approximately correct. In the more scattered stores, however, in case of a mark-down it was possible for a store manager to take an inventory immediately after the notice was received, but to continue selling the goods at the old price until the time he expected the superintendent to arrive, thus realizing for himself a profit equal to the amount of the unit mark-down multiplied by the number of items sold. In the case of mark-ups he could mark the goods up immediately upon receiving the notice, but defer taking the inventory until just before he expected the superintendent to arrive. In this case he made a profit equal to the amount of the unit mark-up times the number of units sold between the time he marked the goods up and the time he took the inventory. In checking all such cases the superintendents had practically nothing for guidance. All they could do was so to vary the times at which they called at the different stores that the store managers could never foretell when they might drop in.

In order to make this form of dishonesty impossible, it has been suggested by one of the officers of the company that the bulletins directing changes in retail prices be sent to the superintendents rather than to the store managers, and that the superintendents convey the bulletins to the store managers in person on their regular calls. It was also a part of this proposal that the superintendent himself should take or should personally supervise the taking of the inventory of goods marked up or marked down. It was planned that bulletins describing new articles added to the company's lines, giving general sales talks, or directing managers to push given commodities, as well as standard window display and counter display bulletins, and other similar notices not involving changes of prices, be sent directly to the store managers as had been the custom.

Question

What advantages and disadvantages would accompany the adoption of this proposal by the Nation-Wide Grocery Stores Corporation?

General Administration 9

Nation-Wide Grocery Stores Corporation—Payment of Store Managers

During the first year of operation the Nation-Wide Grocery Stores Corporation standardized the method of paying store managers in the stores under its control. All managers were paid a salary depending upon their ability and upon the rate at which they had been paid previous to the time their stores were taken over by the corporation. In many cases, of course, this salary was different from what would have been paid had the corporation set the wage. It was thought, however, that reducing the salaries of managers would cause more difficulty and a greater loss to the Corporation than would paying them, in some cases, more than they were worth. In addition to a salary, each store manager received a commission of 1½% of the net sales of his store.

Each store manager was given an allowance for extra help, this allowance ranging from 1½% to 1¾% of his sales. The manager did not get this money until he actually had expended it for help. A manager, if he needed assistance, took the matter up with the superintendent in charge of his store. This superintendent decided upon the amount of help needed and upon the salary which would be paid. This salary usually fell between the percentages allowed. In all cases helpers were paid straight salaries with no commissions.

The Board of Directors of the Nation-Wide Corporation, in reviewing the results of the first year's operations, decided that the method of paying store managers could be improved. Some of the directors believed that the overpaying of managers had gone on long enough and that the corporation was now firmly enough entrenched to reduce the salaries of its men or to replace them. Other directors were of the opinion that the 1½% commission did not offer sufficient inducement to store managers, and still others held that some commission or bonus should be paid to helpers in order to encourage them to take more interest in their work and, if possible, to develop into store managers.

A chain competing with the Nation-Wide Corporation paid its store managers and store salesmen a salary, a commission,

and a bonus in addition to prizes and "increased sales awards." The salary was intended to reflect the ability of the employee and the variety and responsibility connected with his position. The commission, in the case of store managers, was a given per cent of the total sales of the store. In the case of store salesmen, the commission was a percentage of sales of merchandise bearing the chain's own brand and was intended to encourage salesmen to push merchandise manufactured by the chain in competition with the nationally advertised merchandise which the store carried. The bonus was an annual payment made at Christmas time to certain grades of employees as determined by the board of directors. The bonus was never a fixed sum, and the grades of employees who received it were not definitely fixed. Each year the board of directors voted such sum of money as it deemed advisable and specified the method of disbursements. As a rule, however, store managers who had been with the company four years or more received a bonus of $200; and assistants or helpers who had been with the company less than a year never shared in the distribution. Prizes were awarded to employees, both managers and helpers, in that store in each district which, on a given business day, made the best showing compared with the same store's showing on the same day of the preceding month or year. This prize money, like the annual bonus, was voted by the board of directors at such times as were deemed expedient. The vote usually specified that a certain amount of money was to be available for prizes in each district on a given day, a district in the chain's organization being a geographical division having in the neighborhood of 250 stores. Each district manager then apportioned this amount among his subordinates, and they in turn divided the money equally among the superintendents. Each superintendent had charge of from 18 to 25 stores, and it was usually intended that in each superintendent's district a given sum of money should be awarded to the store making the best showing as specified in the vote of the board of directors. After the reports for the prize day had been handed in, the district managers instructed their superintendents to make the awards.

Each superintendent divided the prize money among the employees of the winning store according to a fixed plan so devised that each employee would be rewarded in accord with

the extent to which he was responsible for the store's record. The I. S. A. (Increased Sales Award) prizes which were given to store assistants and helpers as well as to store managers depended upon the number of sales of $1 or more made by the assistant or helper concerned, or by the store operated by the manager concerned. In computing the awards to be given the company figured the percentage of sales amounting to $1 or more to total number of sales for the period, usually a month. The size of the I. S. A. prizes varied with the percentage attained by each assistant, helper, or manager. In view of the fact that the money available for I. S. A. prizes varied from month to month in accord with votes of the board of directors, the size of the award in each percentage class varied from month to month.

It was suggested at a meeting of the board of directors of the Nation-Wide Corporation that the method of paying store managers, assistants, and helpers be changed; and the director making this suggestion implied that he believed the corporation might profitably copy the method of its competitor as outlined above.

Questions

1. Should the Nation-Wide Corporation have changed its method of paying employees to the method used by the competing company?
2. Should it have adopted the methods of the competing company in whole or in part?
3. Should any changes have been made in the method described?

General Administration 10

P. Spillard & Son—Personnel Problems of a Small Drug Chain

Mr. Paul Spillard opened a small drug store in a city in central Ohio in 1888, and rapidly built up the largest unit drug store business in that part of the state. In addition he established a small laboratory on the second floor of his store building where he manufactured three branded drug preparations to be sold to other druggists at wholesale.

By 1905 the business at the main store had grown to approximately $200,000 a year, and Mr. Spillard had taken his elder son into the business as active manager. Besides Mr. Spillard and his son the store employed 18 salespeople regularly in addition to the laboratory staff, which handled practically all of the prescription work as well as the manufacturing.

In 1907 a second store was opened under the same firm name in another portion of the city, and this store, under the management of a second son, rapidly developed a profitable business. As this second store grew, Mr. Spillard found it possible to manufacture a considerable number of drug preparations in his laboratory for sale through his two stores, in addition to preparing the three branded articles which he sold at wholesale as well as through his own stores.

By 1919 the Spillard company had opened four additional drug stores. In that year its sales in all six stores amounted to approximately $750,000, the sales at the main store making up $400,000 of this total. The first branch store, located in the same city as the main store, did a business in 1919 of about $150,000. The four other stores were situated in smaller towns and cities within a radius of 25 miles of the home store, and these smaller stores had a volume of from $35,000 to $68,000 each.

By the time the four other stores had been established, the main store building had been enlarged to make room for a warehouse, in addition to the selling space and the laboratory. Practically all the reserve stock for the entire chain was carried in this warehouse and deliveries made from the warehouse to the various stores every other day.

Mr. Spillard himself was still actively in charge of the business, the elder son being manager of the home store, the younger

son manager of the second store in the same city, and the managers of the other stores men trained as salespeople in the home store. These managers were given considerable freedom in all respects except in buying. They could purchase only up to $25 without consulting the general manager, and even then their purchases were subject to approval weekly. These branch stores differed considerably in selling policies, internal layout, and advertising used. In their policies and their methods, however, the store managers had been governed largely by Mr. Spillard's own ideas.

All the accounting for the chain was centralized in the main store, daily reports of sales and finances being submitted to the general offices by each store. A physical inventory was taken in all stores and in the warehouses once a month. In none of the stores nor in the warehouse was any attempt made to keep a running inventory.

The laboratory which Mr. Spillard had established a number of years before had, in 1919, been enlarged to take care of the preparation of more than 50 drug compounds. All these were sold exclusively through the Spillard stores under a Spillard label. The three branded preparations which were sold at wholesale as well as through the Spillard stores were now manufactured in considerable quantity, and one-half the total laboratory floor space was given over to their manufacture. Prescriptions received at the main store were still compounded in the laboratory and prescriptions other than the very simplest were forwarded from the other stores to the laboratory, where they were filled quickly and accurately. As a result, the Spillard chain had a high standing with local physicians.

In 1919 the company's payroll consisted of 90 persons, including store managers, laboratory employees, and salespersons. As the business grew some personnel problems arose. In one case there was friction with the employees in the chemical laboratory, who considered themselves analogous to factory employees and resented being required to work regular drug store hours, 10 hours a day, six days a week. The management had been loath to make concessions to these employees for fear that the prescription clerks in the stores, whose work was of a similar nature, would demand like concessions, and that if these concessions were granted to the prescription clerks, the salespeople

in general might make similar demands. Another problem which confronts Mr. Spillard is the training of salespeople and of store managers for the five or six new stores which he is planning to add to the chain.

Question

How should Mr. Spillard meet these problems?

2. NON-EXECUTIVE

a. ORGANIZATION

General Administration 11

The B. P. Wilber Company—Personnel Inventory

The department store operated by the B. P. Wilber Company in an important city in one of the Rocky Mountain states has 61 departments; its sales in 1920 totaled $6,737,291. The store employs regularly a total of between 900 and 1,000 employees. Of these slightly under 90% are in positions below those which the store terms minor executive positions.

The management of Wilber's has always considered the store too small to justify the establishment of a system of personnel statistics, and hence the store has lagged somewhat behind the other important stores in the West in personnel development. It now appears that more information in regard to personnel is necessary if the store is to gain from its personnel functions the same efficiency which it has succeeded in maintaining in its merchandise and financial departments.

One of the minor office executives who agrees with the management that the store is too small to make profitable use of a running statistical system on personnel matters, thinks that

the store should have more information than it now has for use in such matters as transferring employees from one department to another, granting increases, determining the general ability of the various employees, and organizing clubs, teams and other social activities. To provide the information upon which the management can make its decisions in these matters more intelligently he has suggested that the following questionnaire be submitted to every new employee at the end of his first three months in the employ of the Wilber store.

At the top of the questionnaire there is space for the following data to be filled in by the store:

1. Name
2. Home address
3. Date
4. Department (in which employed at present)
5. Previous departments (in which employed)

This is followed by data inserted by the store physician as below:

1. General health
2. Condition of hair
3. Condition of vision
4. Condition of heart
5. Condition of hearing
6. Condition of lungs
7. Condition of feet

and by a rating filled in by the buyer and section floor man working in collaboration. This rating involves the assignment to each employee of a ranking, A, B, or C, depending upon whether, in their judgment, the employee is above the average, on the average, or below the average in fitness for his present job.

The questionnaire proper was made up of three groups of questions, as follows:

I. Education.
   A. Are you a public school graduate?
   B. If not, how many years did you attend public school?
   C. Are you a high school graduate?
   D. If not, how many years did you attend high school?
   E. What other education have you had?
   F. What studies are you taking up now?

II. Experience.
   A. What positions have you held in other department stores?
   B. What positions have you held in other lines of work?

C. What positions have you held in this store?
D. What position do you hold now?

III. Special Abilities.
A. What languages in addition to English can you speak?
B. What musical instruments do you play?
C. Can you sing?
D. Could you act in a play?
E. What are your favorite athletic activities?
F. Have you other special abilities?

In addition to this questionnaire a classification of the reasons why employees left the Wilber store was prepared. Two major classifications were distinguished, resignation and discharge. Under each of these were distinguished two sub-classifications as follows:

A. Resignation.
1. Left without notice.
2. Dissatisfied with pay.
3. Dissatisfied with work.
4. Other positions.
5. Married.
6. Leaving city.
7. Personal health.
8. Illness in home.
9. Deceased.
10. Returned to school.
11. Work at home.
12. Too far to travel.

B. Discharged.
1. Reduction of force.
2. Poor attendance.
3. Incompetence.
4. Insubordination.
5. Refused by medical section.
6. Unsatisfactory reference, false application.
7. Dishonesty.

Questions

1. Would the information secured by the questionnaire above furnish sufficient basis for transferring employees, granting increases in salary, or making promotions?

2. If not, what statistics could the store profitably gather which would furnish the desired basis?

3. What labor turnover statistics based on the classification above could the store use to advantage?

General Administration 12

Peabody & Perkins—Employee Records

The Peabody & Perkins department store uses the following form of individual record for persons engaged in selling merchandise:

Name.. Address..

Age..

		Jan.	Feb.	March	April	May	June	Remarks
Date engaged and account closed	1919 1920 1921							
Salary	1919 1920 1921							
Department	1919 1920 1921							
Health 5	1919 1920 1921							
Appearance 5	1919 1920 1921							
Manner 5	1919 1920 1921							
Initiative 5	1919 1920 1921							
Industry 5	1919 1920 1921							
Accuracy 5	1919 1920 1921							
Loyalty 5	1919 1920 1921							
Cooperation 5	1919 1920 1921							
Responsibility 5	1919 1920 1921							
Knowledge 10	1919 1920 1921							
45 Sales: B—30 C—45	1919 1920 1921							
Total	1919 1920 1921							

FORM No. 80. Peabody & Perkins—Form of Individual Sales Record

Amount of Sales		Per- centage	Credits	Number of Sales	Errors	Times Late	Days Absent
	'19 '20 '21	'19 '20 '21	'19 '20 '21	'19 '20 '21	'19 '20 '21	'19 '20 '21	'19 '20 '21
Jan.							
Feb.							
March							
April							
May							
June							

Questions

1. Can you suggest any changes in the plan of rating selling employees?

2. The management desires to work out a form by which the efficiency of non-selling employees can be rated.

3. What changes in the above form can you suggest to make it applicable to non-selling employees?

General Administration 13

The Gramarcy Company—Job Analysis

Mr. Robert B. Smithers, personnel manager in the department store organization of the Gramarcy Company, some time ago realized the value of job analysis in hiring and placing employees. He had charge of welfare work, insurance, employees' club, education and training work, in addition to the work of hiring and placing employees. The securing of help for the delivery service and for the jobs under the direction of the general superintendent, that is, elevator men, window washers, and scrub women, for example, did not come under his office. These less skilled employees were hired and placed by the executive or sub-executive directly in charge of the function. The personnel manager had to deal only with those classes of help normally called selling and non-selling employees; that is, the salespeople, office and stockroom employees and the minor executives.

In his theories of placing personnel, Mr. Smithers gave greatest emphasis to the proper selection of the employee for the job. He maintained that it was an admission of incompetence on the part of the personnel manager to be forced to transfer an employee from department to department in an attempt to find a place where that employee could work satisfactorily. In the Gramarcy organization the personnel manager only had the power to discharge employees. Department heads had the power to say when employees should be transferred and also they had a vote in the placing of all employees. It was Mr. Smither's custom to submit a number of candidates from which the department head might select. He never attempted to force an employee upon a department head. He felt that it was his duty rather to know the department so well and select the candidate so wisely that the department head would not reject him. He constantly told his subordinates to learn the jobs in the different departments thoroughly and to learn just as thoroughly the idiosyncrasies of the individual department heads and their assistants. Furthermore, Mr. Smithers said that since the employment office was a staff organization, it should perform a service and should not assume the authority and the work of management. What he aimed to exert was the power to persuade, not the power to order, and he did not want to rob a department head of his functions and his responsibilities.

In the work of training his subordinates in line with the theories set forth, Mr. Smithers directed that they should go into the various departments and study at close range the precise needs of the job. While studying the job they should come in personal contact with the various people in charge of that job and get the personal as well as the physical and impersonal elements which should be embodied in the employees who are successfully fulfilling the duties of that job. In other words, Mr. Smithers and his assistants were to go into each department and there prepare a job analysis of each job. These job analyses, however, were never to be written; rather, they were mental notes taken by the subordinate and made a part of his general knowledge of that job. Mr. Smithers did not even require that they get definite information about the job in a certain order; he merely told them to learn the job and its

requirements. It was his opinion that analyses should not be written, because jobs change frequently, and if analyses were written he thought that the people interviewing newcomers would be inclined to follow the written analyses and hence would tend to secure people suited to the job before the change.

In his work Mr. Smithers was greatly handicapped by the fact that there were tremendous seasonal fluctuations in the demand placed upon the employment office. Late in the fall, for instance, people were hired with considerable rapidity, and there were almost always long lines of applicants waiting to be interviewed. At other times of the year, say January or February, several days would go by without a single applicant being interviewed. In view of the fact that Mr. Smithers could not build up an organization large enough to care for the peak load, he was unable to assign his subordinates to the task of studying the needs of special departments in the store, and interviewing applicants for these departments only. Mr. Smithers was forced to organize his department to care for the normal load, and thus he could have only two or three assistants who did interviewing. Each of these two or three assistants had to interview applicants for all jobs coming under the direction of the personnel manager and hence each had to carry in his mind a great number of job analyses. In spite of this fact Mr. Smithers held to the contention that job analyses should not be written. To the argument that his interviewers might resign and take with them all their job analyses, he replied that in an emergency he could replace them and that one of his staff would usually remain to carry on the work.

The president of the Gramarcy Company, in spite of the fact that he had great confidence in Mr. Smithers, still felt that job analyses should be placed on paper. It seemed to him that by so doing, a greater degree of uniformity could be secured in employees, and hence greater efficiency in managing the various departments. Mr. Gramarcy secured from a department store in New York, a copy of one of the job analyses used in this store. This job analysis read as follows:

JOB: Junior Vocational Clerical.

FUNCTIONS: Checks parcel collectors' and head cashiers' time clocks and reports to head supervisor any clocks needing repairs or new ribbons. Sorts and counts central wrapping

coupons and enters amounts each day on weekly-bonus sheet. Checks head cashiers' records and parcel collectors' coupons. Makes record of all errors and gives to head supervisor. Assists in collection of p. c. coupons each night and turns them into central office. Makes out p. c. coupons for following day and leaves them in central office. Each Monday makes out weekly bonus records and turns in all chart work done in central wrapping department previous week.

SCHEDULE: 9:00 to 12:30—sorts central wrapping checks, figures bonus, and sets stamp clocks; 12:30 to 1:30—lunch; 1:30 to 4:00—checks up p. c. coupons for previous day; 4:00 to 5:30—prepares coupons for next day.

NOTE: Figures weekly bonus for central wrapping on Monday. Figures weekly bonus for parcel collectors on Wednesday.

JOB SPECIFICATIONS: Young woman sitting and standing; lifts light objects—(1) Good eyes. (2) Good writer. (3) Knowledge of job. (4) Industrious, dependable. (5) Understudied by office training.

Question

Is it likely that the interviewers in the Gramarcy Store would be more successful in securing the right person for the right job if this system of writing job analyses were substituted for the methods used by Mr. Smithers?

GENERAL ADMINISTRATION 14

RALPH J. ADAMS & SON, INC.—RATING OF PERSONNEL

The department store of Ralph J. Adams & Son, Incorporated, in one of the larger cities in the Middle West, did a business of over $13,000,000 in 1920. On the first day of February, 1921, the store had on its payroll 3,379 regular employees. In order to handle the many questions of personnel management and administration, the store had established two years previously a personnel department and had placed this department under the

direction of a personnel manager who had had an extended experience in factory personnel work. This personnel manager had installed a carefully prepared and rather elaborate system for keeping track of employees and for making sure that they were placed in the positions for which they were best fitted. The personnel manager, however, had never been able to persuade the management of the wisdom of paying and promoting employees on the basis of an efficiency rating plan.

Mr. Ralph J. Adams, Jr., one of the younger sons of the founder of the business, and a member of the firm, had served as a Major with the American Expeditionary Forces in France, and upon his return became interested in the plan of the personnel manager to devise a scheme of rating which might be used successfully to solve the store's problems of salary and promotion. The younger Mr. Adams was able to convince his father of the merits of the rating idea, and it only remained to devise a system which would work practically.

Encouraged by the younger Mr. Adams, the personnel manager made an investigation of the methods of rating in use in several department stores east of the Mississippi. A number of the plans which had been developed by stores of approximately the same size as the Adams store seemed in a measure applicable to the needs of this company. Two of the plans in particular appeared worthy of careful consideration.

The first of these plans had been devised and adopted by one of the larger department stores in Philadelphia. In this store there was an employment department in charge of the hiring of employees, a training department in charge of the educating and training of employees, and a service department responsible for the supervision of employees after they had been hired and trained. The floor superintendent in charge of each floor supervised the selling, and next in authority were a number of section managers or floor men, each having charge of one or more departments.

The section manager and the buyer in the selling departments were required to rate each salesperson each month. In the non-selling departments each employee was rated monthly by his section foreman and by the department head.

In rating the salespeople Form 81 was used. In the first column was entered the name of the salesperson rated, and in

If in your opinion the Salesperson's rating is Perfect, mark "5" Excellent, " "4" Good, " "3" Fair, " "2" Poor, " "1" Bad, " "0"	HEALTH	APPEARANCE	MANNER	INITIATIVE	INDUSTRY	ACCURACY	LOYALTY	CO-OPERATION	RESPONSIBILITY	KNOWLEDGE	TOTAL	DEPT. DATE

FORM No. 81. Ralph J. Adams & Son, Inc.—Form for Rating of Salesperson

the additional columns to the right the rating for each of the 10 qualities listed, and the total. In the final column at the right were entered any remarks. These people in rating selling employees were governed by the following statement giving the management's interpretation of what constituted a high rating for each of the qualities:

Health should be given a high rating if

1. Attendance is regular.
2. Tardiness in the morning seldom occurs.
3. Overtime in lunch hours is seldom taken.
4. Absence from the floor during hours is not frequent.
5. Sick passes are few.
6. Hospital is visited promptly to ward off illness.
7. Complexion is good, eyes clear, teeth cared for.
8. Manner is alert.
9. Disposition is cheerful.

Appearance should be given a high rating if

1. Skin, hair, teeth, hands, and body are clean (face is freshly shaved).

2. Hair is neatly arranged (trimmed).
3. Garments are clean, neat, and simple, and shoes polished.
4. Little jewelry is worn.
5. Rouge and powder are not used in excess.
6. Dress regulations are strictly adhered to.

Manner should be given a high rating if

1. A real and undivided interest in customers is shown (with courtesy extended to any other customer when necessary).
2. Pleasantness continues throughout a trying or unsuccessful sale.
3. Attitude toward other employees is pleasant.
4. Corrections are taken cheerfully.
5. Voice is low.
6. Speech is free from slang and vulgarity.
7. Attitude is alert.
8. Attitude is cheerful.

Initiative should be given a high rating if

1. Frequent suggestions are made to customers about introducing other merchandise or about new stock.
2. Sufficient merchandise is shown.
3. Frequent reports are made to buyer about wanted articles or goods noticed in other shops.
4. Stock is carefully arranged and displayed.
5. Stock is kept clean and in order.
6. A desire to advance to a higher position is shown.
7. Prompt attention to approaching customers is shown.

Industry should be given a high rating if

1. Attendance is regular.
2. Tardiness seldom occurs.
3. Constant activity is shown in cleaning, marking, and arranging stock.
4. Own stock is kept representative.
5. Prompt and courteous attention is shown customers.
6. Readiness to do any task is shown.

Accuracy should be given a high rating if

1. Error record is low.
2. Correct reports are given customers in regard to stock in reserve, stock on order, and stock obtainable.
3. Correct reports are given to buyer of stock on hand and its selling qualities.
4. Statements are honest and attitude frank.

Loyalty should be given a high rating if

1. Store regulations are conformed with (employees' elevators, employees entrance, promptness, etc.).
2. An effort is made to possess qualities listed in rating sheet.
3. An interest is shown in after-hour activities in the store.
4. Enthusiasm is shown in speaking of the store to customers and other employees.
5. Only fair and constructive criticism is made when speaking of the store to other employees.

Cooperation should be given a high rating if

1. Store regulations are conformed to.
2. An effort is made to possess qualities as listed on rating sheet.
3. An interest is shown in after-hour activities.
4. Willingness is shown to do extra work, night work, stock-taking, moving stock.
5. Willingness is shown to perform new or unusual tasks (handling luxury tax, marking goods, etc., assisting in other departments).
6. An intelligent and sympathetic interest is taken in store organization and the work of other departments.

Responsibility should be given a high rating if

1. Customers are always approached promptly.
2. Care is taken in each transaction that the customer shall be satisfied.
3. Own stock is kept representative and in order.
4. An interest is shown in keeping the whole department in order.
5. A readiness to uphold the standard of the whole store is shown.
6. Employee acts as custodian of store property and good will.

Knowledge should be given a high rating if

1. Sales checks are made out correctly.
2. Various printed forms are understood.
3. Store rules are followed.
4. Location of store departments is known.
5. Location of every article of stock in own section is known.
6. Correct reports can be given or quickly obtained of stock in reserve, stock on order, and stock obtainable, and the general market.
7. Accurate information can be given or quickly obtained of the make, use, and wearing quality of the stock on hand, accompanying guaranteed, and its care.
8. The store's daily advertisements are read and noted.

In rating salespeople two factors were considered, the rating in the qualities listed on Form 82, and the volume of sales. A perfect rating for a salesperson on Form 82 would be 55, the perfect mark for knowledge being 10 and that for each of the other nine qualities 5. To each month's rating was added either 45, 30, or 15, depending upon whether or not the salesperson in total sales for the month was in the first third, the second third, or the last third of the department when all the salespeople of the department were arranged in order of volume of sales. Thus the highest possible rating for a salesperson was 100.

In non-selling departments the highest rating was 100, the perfect mark in each of the 10 qualities being 10. The people doing the rating in these non-selling departments used Form 82 in the same manner as the people doing the rating in the selling departments used Form 81.

If in your opinion the Employe should be rated Perfect, mark "10" Excellent, " "8" Good, " "6" Fair, " "4" Poor, " "2" Deficient, " "0"	HEALTH	LOYALTY	CO-OPERATION	INITIATIVE	INDUSTRY	ACCURACY	THOROUGHNESS	SPEED	RESPONSIBILITY	KNOWLEDGE	TOTAL	DEPT. DATE

FORM No. 82. Ralph J. Adams & Son, Inc.—Rating Sheet for Use in Non-selling Department

In making their ratings, the foremen and department heads were guided by the following explanation and comment printed on the back of Form 82 and numbered Form 83.

THE PURPOSE OF THE RALPH J. ADAMS & SON, INC., ORGANIZATION IS TO RENDER HONEST, PROMPT, COURTEOUS AND COMPLETE SERVICE TO CUSTOMERS. TO THE ATTAINMENT OF THIS END EVERY MEMBER OF THE ORGANIZATION MAKES A CONTRIBUTION. THE RATING PLAN IS AN ATTEMPT TO APPRAISE CAREFULLY EACH CONTRIBUTION BY ESTIMATING THE DEGREE TO WHICH CERTAIN QUALITIES ARE EVIDENCED AND CERTAIN RESULTS ACHIEVED.

1. HEALTH	In rating for health consider regularity of attendance, attitude toward work, and personal appearance.
2. LOYALTY	In rating for loyalty consider faithfulness to a personal ideal and to the interests of Ralph J. Adams & Son, Inc.
3. COOPERATION	In rating for cooperation consider willingness to work with others.
4. INITIATIVE	In rating for initiative consider resourcefulness, and ability to work without continual direction.
5. INDUSTRY	In rating for industry consider constancy of application to work.
6. ACCURACY	In rating for accuracy consider correctness in the execution of every detail.
7. THOROUGHNESS	In rating for thoroughness consider carefulness throughout, and ability to complete each task.
8. SPEED	In rating for speed consider amount of work produced in a given time.
9. RESPONSIBILITY	In rating for responsibility consider trustworthiness in performing according to a given standard.
10. KNOWLEDGE	In rating for knowledge consider possession of necessary information.

FORM No. 83. Ralph J. Adams & Son, Inc.—Explanation and Comment on the Reverse Side of Form 82

Each month the names of the persons to be rated were entered on Forms 81 and 82 in the office of the service department, and the forms were then sent to the respective raters. These persons were required to rate the listed employees on the basis of their performance during the preceding month and return the form to the service department office on or before the fifth of the month. In the service department there was kept a book having one page, Form 84, for each selling employee.

At the top of this form were entered the name and address of the employee and the date of birth. In the space designated "date engaged and account closed" were entered, under the proper month, the year and day on which the employee was engaged by the store, and similarly, when the employee left was entered the day on which his account was closed. In the next space, designated salary, was entered the salary received per week for each of the respective months and years. In the space designated "department" was entered the department number each month. In the 10 spaces for the 10 qualities in which

NAME ADDRESS

AGE

			JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	
DATE ENG. AND ACCT. CLSED		1919													
		1920													
		1921													
SALARY		1919													
		1920													REMARKS
		1921													
DEPT.		1919													
		1920													
		1921													
HEALTH	5	1919													
		1920													
		1921													
APPEARANCE	5	1919													
		1920													
		1921													
MANNER	5	1919													
		1920													
		1921													
INITIATIVE	5	1919													
		1920													
		1921													
INDUSTRY	5	1919													
		1920													
		1921													
ACCURACY	5	1919													
		1920													
		1921													
LOYALTY	5	1919													
		1920													
		1921													
COOPERATION	5	1919													
		1920													
		1921													
RESPONSIBILITY	5	1919													
		1920													
		1921													
KNOWLEDGE	10	1919													
		1920													
		1921													
SALES-B-30	45	1919													
		1920													
C-15		1921													
TOTAL		1919													
		1920													
		1921													

	Amt. of Sales			Percentage			Credits			Number of Sales			Errors			Times Late			Days Absent		
	1919	1920	1921	1919	1920	1921	1919	1920	1921	1919	1920	1921	1919	1920	1921	1919	1920	1921	1919	1920	1921
JAN.																					
FEB.																					
MAR.																					
APR.																					
MAY																					
JUNE																					
JULY																					
AUG.																					
SEPT.																					
OCT.																					
NOV.																					
DEC.																					
TOTAL																					

FORM No. 84. Ralph J. Adams & Son, Inc.—Individual Record of Employees

Rater's Signature .... Department .... For Month of .... 192........

GUIDE TO RATING:—Every Department has a "Best in the Department." Let that choice one in the Department represent your maximum rating; then, rate downward to the least qualified in the Department, making each element of each individual stand out in the rating according to the strength of that element in the person.

Each rating should be seriously made according to your own best judgment, as promotions in salaries and positions will be determined entirely upon such ratings. Selling percentages, Errors, Constructive Suggestions, Etc., already known to the management will be taken into consideration by the office.

MONTHLY RATING REPORT

		QUALITY 25%					QUANTITY 25%					EXPERIENCE 25%			CO-OPERATION 25%			RATING
		Thoroughness and Accuracy	Neatness in Work and Appearance	Courtesy	Initiative	Mark Total Percentage of Quality	Indicate in one column hereunder your estimate of Employees' ability to accomplish the proper amount of work, considering the conditions and duties of the month.					Knowledge of Mdse. and general store system (if salesperson); of non-selling duties (if non-selling employee).	Adaptability to serve in other departments	Mark Total Percentage of Experience	Willingness	Reliability in Work and Attendance	Mark Total Percentage of Co-operation	Do Not Write in this Column
Number	NAME	Maximum 10	Maximum 5	Maximum 5	Maximum 5		Maximum 25	Excellent 20	Good 15	Fair 10	Poor 5	Maximum 20	Maximum 5		Maximum 10	Maximum 15		

Recommendations, Suggestions, or Remarks:

the salespeople were rated on Form 81 the rating by the buyer in each quality was entered in black, and the rating by the section head in red. These two ratings were averaged for each item, and the total entered in red in the space designated "sales." Here also was entered in black the figure indicating the third of the department in which the salesperson fell in volume of sales; that is, 45, 30 or 15. The sum of the black and the red figures in the space designated "sales" was the total rating and this total was entered in the space designated "total." At the bottom of the form there was entered the amount of net sales in dollars, the percentage of salary to sales monthly, the credits in money deductible from the sales of each salesperson each month, the number of transactions, the number of errors, the times late, and the days absent. In the column for percentage of salary to sales there was entered in red at the end of each six months the average percentage for the six months. In the columns for times late and times absent the total number of cases of lateness or absence was entered in black, and in the same space an entry in red was made for the number of those cases which were excused.

In keeping a record of the ratings of non-selling employees, a similar form was used. In this form, however, appropriate changes were made in the names of the qualities rated, and the space for the information included below the space designated "total" was omitted.

As explained, records were kept on Form 84 in the office of the service department. Copies of Form 84, which had been filled out by the office of the service department, were kept also by each floor superintendent in his office.

The second of the two plans which Mr. Adams and the personnel manager believed came nearest to meeting the requirements of the Adams Store had been devised by the manager of the employment department in a Chicago department store. In this store the rating for both selling and non-selling employees was done in the same manner, on Form 85 (see Insert VII.) On the first of each month in the employment department this form was filled out with the department number, the date, and the employee's number and name. The forms were then sent to the buyers and assistant buyers for the selling departments, and to the department heads and assistant department heads for non-

selling departments. These men had seven days in which to make their ratings and return the forms to the employment office.

In the employment office this form was carefully studied and if important discrepancies existed between the ratings, an attempt was made to have this discrepancy explained and the figures adjusted.

The raters were guided by the following memorandum from the management:

One of the most important duties before the Adams' executives is the proper rating of their employees so that we may have justice for all. When you consider that salary increases, advancement in position, discharges, in fact, everything that has to do with the employees' standing in the organization is based on the ratings, you realize how important it is to rate fairly.

Furthermore, again in the spirit of justice, all executives should be working as nearly on the same basis as possible so that the ratings for the entire organization can be averaged fairly. In other words, some executives at present are low raters. That is, they rate on the basis that the best are not better than 60% or 70%. Others are higher raters, using 100% as signifying their best employees.

If we stop to reason, we realize that many employees are not 100% in their job. On the other hand, the valuable employees in your department should certainly be rated over 70%.

Therefore, the best plan is to take an established figure and rate from that figure. With this idea in view, the total made up from the chart No. 86 on page 851 is explanatory and can be used as a guide:

QUALITY

Thoroughness and Accuracy: "How well employees do the things they are supposed to do." We all make some mistakes, hence no one is perfect and the full rating should not be given. All those rating employees know of various mathematical errors, wrong addresses, names misspelled, checks where initials and capitals are not printed, etc., therefore, consider all these when rating on this point.

Neatness in Work and Appearance: "Business-like appearance of your work whether it be stock or records, and general personal neatness of hair, dress and hands, also conformation to dress regulations." Most employees can reach the maximum on these points, but do they?

Courtesy: "Pleasant to customers, executives and fellow workers." Some employees can be the maximum in this, but it is human nature for some to be more courteous than others. Be careful to grade accordingly.

Initiative: "Ability to work without supervision. Ability to see what is to be done and do it. Ability to carry out the spirit of the instructions, thus seeing more than the bare facts."

Quality 25%					Quality 25%				
Thoroughness and Accuracy	Neatness in Work and Appearance	Courtesy	Initiative	Mark Total Percentage of Quality	Indicate in one column here under your estimate of employees' ability to accomplish the proper amount of work, considering the conditions and duties of the month				
Maximum 10%	Maximum 5%	Maximum 5%	Maximum 5%		Maximum 25%	Excellent 20%	Good 15%	Fair 10%	Poor 5%
8%	4½%	4%	4%	20½%		20%			

Experience 25%			Cooperation 25%			Rating
Knowledge of Merchandise and General Store System (if Salesperson); of Non-Selling Duties (if Non-Selling Employee)	Adaptability to Serve in Other Departments	Mark Total Percentage of Experience	Willingness	Reliability in Work and Attendance	Mark Total Percentage of Cooperation	Do Not Write in This Column
Maximum 20%	Maximum 5%		Maximum 10%	Maximum 15%		
18%	3½%	21½%	10%	14%	24%	86%

CHART No. 86. Ralph J. Adams & Son, Inc.—Guide Chart for Rating Purposes

The explanation given is convincing that Initiative is a very important point in rating. Likewise, it should convince us who do the rating that it is practically impossible to be perfect in the rating on this point, and in giving the figure of 4 on the guide chart, we have set rather a high standard. Only the employees who are above the average should be rated more than 2. Many employees can carry out instructions given them, but do not have the ability to work without supervision, nor to do what is to be done without being told to do it.

Quantity

Quantity: "Indication of the amount of work an employee can do in a given time, in a given place and under existing circumstances."

Many of us today are not doing the maximum amount of work we are capable of doing. Some time during the day a sales clerk might make one more sale; a clerical worker one more entry, etc. Consider these points before giving a high rating. Do not confuse quality of work with quantity. Often a good employee gives quality but is slower than some other, and when it comes to rating we are apt to rate these two the same, but this is not justice to either, because each has his place in the right job.

Experience

Knowledge (for Selling Departments): "Knowledge of merchandise. Knowledge of selling methods. Knowledge of store custom."

(For Non-Selling Departments): "Knowledge of the job routine. Knowledge of specific job instructions."

Adaptability to Serve in Other Departments: "Possessing qualifications which would make it easy to learn the other job quickly, and experience gained by working on other jobs."

Be cautious in rating on Knowledge and Adaptability.

Cooperation

Willingness (Selling Departments): "Inclination to work well with other members. Inclination to be helpful to customers at all times and under all circumstances."

(Non-Selling Departments): "Inclination to work well with others in the department and be pleasant and helpful to employees of other departments for the general benefit of the Adams Company."

It is possible for us all to do this and if we do we should receive the maximum rating. This is, however, a quality of utmost importance in this store and utmost thought should be given to rating this point.

Reliability: "To be in the right place at the right time and doing the right thing."

This can be done and should be. Some of our workers think nothing of staying out without advising in advance, and coming in 5 or 10 minutes late day after day. Remember in your rating on Reliability, one time late, or one day absent (within the rating period) without being excused,

SELLING

192_____ Rating of __________

No. __________

Name __________

Trans. to __________

Engaged __________

Month __________ Year __________

	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE		JULY		AUGUST		SEPTEMBER		OCTOBER		NOVEMBER		DECEMBER	
	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__
	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date	Department Head / Assistant Dep't Head / Reconciled Rating / Rating for Year to Date
QUALITY 25 — Accuracy 10																								
Neatness 5																								
Courtesy 5																								
Initiative 5																								
Rating in Red																								
QUANTITY 25 — Rating in Red																								
EXPERIENCE 25 — Knowledge 20																								
Adaptability 5																								
Rating in Red																								
CO-OPERATION 25 — Willingness 10																								
Reliability 15																								
Rating in Red																								
FOR RATING ADD RED ONLY																								

RATING FOR YEAR 192 __________

RECOMMENDATIONS, REMARKS OR SUGGESTIONS __________

NON-SELLING

192_____ Rating of __________

No. __________

Name __________

Trans. to __________

Engaged __________

Month __________ Year __________

	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE		JULY		AUGUST		SEPTEMBER		OCTOBER		NOVEMBER		DECEMBER	
	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__	192__
	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date	Department Head / Rating for Year to Date
QUALITY 25 — Accuracy 10																								
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Rating in Red																								
FOR RATING ADD RED ONLY																								

RATING FOR YEAR 192 __________

RECOMMENDATIONS, REMARKS OR SUGGESTIONS __________

prevents an employee from receiving the maximum rating. If in doubt about attendance and lateness, call at the Training Department for the figures.

Summary

To put the matter briefly, the whole idea of the figures and analysis given on the preceding pages is to give the executives who do the rating a set of figures for their guidance. Remember that too high a rating is just as much an injustice in the end as one too low. "Be accurate and you will be just."

In making his ratings in accord with this memorandum, each rater was expected to take into consideration the errors, the absences, the number of times late, the good suggestions, and the selling percentage (for selling employees) of the person rated. Statistics on these subjects were furnished to the rater by the employment department at the time when he was furnished with Form 86. When the rating system was first established in the store, it had been customary to have the raters make their ratings without reference to statistics on these matters, and then the ratings had to be adjusted in the employment office in accord with the statistics. This earlier method was changed to the method described above because the management believed that by the old method the employee was penalized twice.

In the office of the employment department the ratings of each employee were transferred from Form 86 to Form 87 for selling employees, and to Form 88 for non-selling employees. On these forms the permanent record of the department was kept.

In Form 87, as shown, the columns for "Reconciled Rating" were used for the average of the ratings of the two raters. In the same form the column headed "Section Manager" was used for the ratings of the floor manager. This rating had been discontinued at the time when Mr. Adams made his investigation.

On the back of Forms 87 and 88 were provided columns for the days of the month, and rows for the months of two years. In these spaces were entered the record of the errors, suggestions, and other conditions bearing upon an employee's rating not provided for in Form 86.

In the office of the educational department there was kept on Form 89 a record of the standing of the employees in each depart-

ment, rank being given in order of rating. This form was not sent to the department heads.

Last Year Rating for Month	Month of .... 192.... Department No.	Rating for Season to Date	Rating for Month	Last Year Rating for Season to Date	Rank for Season to Date
1					
2					
3					
4					
5					
6					
7					
18					
19					
20					
21					
22					
23					
24					
25					

FORM No. 89. Ralph J. Adams & Son, Inc.—Office Record of the Standing of Employees

Each employee in the store was called to the employment office quarterly for a conference and reasons for improvement or falling off in his rating were discussed.

The employment manager, in a discussion with Mr. Adams, said that the greatest problem in connection with rating was the education of the people who did the rating. Although the store had been rating its employees for two and a half years, a year's hard work was necessary before any great importance could be attached to the results of the ratings.

Questions

1. Should the personnel manager of Ralph J. Adams & Son, Inc., have adopted either of these plans for rating?
2. If so, which scheme should he have adopted?

General Administration 15

LaVergne and Loomis—Elimination of Floor Men

The firm of LaVergne and Loomis owns and operates a department store doing a business of slightly under $15,000,000 a year in one of the large cities on the Pacific Coast. Previous to July 1, 1920, each department in this store had a buyer in charge of merchandising and an assistant buyer with duties similar to those of the buyer. Each floor was placed in the charge of a floor superintendent, and this floor superintendent had from two to five floor men to assist him.

The duties and responsibilities of the floor superintendents were divided into five general classes. In view of the fact that the floor men were the agents through whom the floor superintendents worked, their duties and responsibilities were under the same five classes.

First, the floor superintendent was to give prompt and courteous service to all customers in departments on his floor. His station was to be such that he could see all customers and be sure that they were recieving proper treatment from salespeople. He was to handle all credits, complaints, exchanges, and refunds courteously and cheerfully. He was to have charge of lost and found articles, making sure that they were sent to the lost and found department on the first floor, and he was responsible for the prompt movements of packages to the shipping room.

Second, the floor superintendent was to cooperate with the buyer in maintaining the planned volume of sales. To this end the floor superintendent was required to maintain an efficient body of salespeople and to stimulate in them an interest in increasing their individual sales and sales of the department as well. Also, he was responsible for seeing that want slips were made out for every call for merchandise not in stock.

Third, the floor superintendent was charged with keeping expenditures as low as possible. In order to do this he was to study the method by which the expenses of his departments were apportioned and controlled. He was to cooperate with buyers in planning for and requisitioning salespeople, and he was to cooperate with the employment office in transferring salespeople from department to department in case of emergencies. In addition, the floor superintendent was to keep a record

of supplies used on the floor and to see to it that they were not wasted.

Fourth, the floor superintendent was responsible for seeing that his floor was open for business promptly each morning and that it was properly closed at night. It was expected that he would be the first to arrive in the morning and the last to leave at night.

Fifth, the floor superintendent was charged with the enforcement of the store rules concerning working hours, concerning the property of the store or customers, and concerning the prevention of accidents. In this connection he was to report immediately all defects in the mechanical equipment to the service department. Also, he was to see that employment laws were enforced in his departments, and in case of accident to either employees or customers he was to see that they were properly and promptly cared for.

The floor superintendent had many detailed duties in addition to the five major groups listed. He was to see that the floor was properly lighted at all times, and that wrappers and cashiers were present at every wrapping and cashier station. He was to issue passes to salespeople wishing to shop in other departments or to leave the building. Finally, it was the floor superintendent's duty to authorize exchanges, credits, and, in certain cases, charge sales.

On the first of July, 1920, the store did away with 39 floor men. The floor superintendents, however, were retained with their duties and responsibilities unchanged, and the assistant buyers in each department were made responsible to the floor superintendents for the carrying out of the former floor men's functions in their departments. In addition, a new position was created on a level of authority below that of the assistant buyer. This position was given to competent salespeople, who were called sponsors and whose duties were, roughly, to assist in the training and introduction of new salespeople into the department, to assist the assistant buyer in carrying out the work formerly done by the floor men, and to act as heads of stock, except in those departments where there were a large number of lines and where for that reason there was a head of stock in charge of each line. The sponsors were selected on the basis of high standing according to the store rating system.

They were charged with maintaining discipline in the departments, with making minor adjustments and refunds, with the O. K. of charge-take sales slips, and looking out in general for the proper handling of customers. In the absence of the buyer and assistant buyer the sponsor was in charge of the department.

This change was made in order to eliminate the expense of maintaining a staff of 49 floor men, and in order to give better and quicker service to customers by providing more people with authority to make adjustments and authorizations, and by making more people share the responsibility for giving courteous attention to customers.

Under the new arrangement the assistant buyer was responsible to the buyer in matters of merchandising. He consulted with the buyer in regard to purchases with respect to style, sizes, and colors, as well as quantities, and he assisted in the planning and scheduling of special events or seasonal openings. In matters relating to service to customers, and relating to salespersons and salesperson control, to care of stock, and to physical efficiency of the department, the assistant buyer was responsible to the floor superintendent. It was only in these latter duties that the sponsors shared.

About two months after this new system had been installed, Mr. W. T. Loomis, the member of the firm in charge of service and plant, delivered a short address before a convention of department store men in Salt Lake City. In his talk, Mr. Loomis described the changes which had been made in the organization of his store, and the results which had attended these changes. Mr. Loomis asserted that there had been a marked improvement in the general service, both in the store as a whole and in the individual departments. Customers, he said, had expressed satisfaction with the new system, which in their estimation had developed superior *esprit de corps* among the salespeople and better service generally. A number of customers had commented favorably on the quicker delivery of packages and on the increased speed with which adjustments were made under the new system. All who commented at all had been favorably impressed with the quiet and dignified manner in which sponsors and assistant buyers placed their O. K. on checks and adjustment slips.

In general, Mr. Loomis said, the sponsors had proved equal to their new work; they had shown themselves capable, and had been enthusiastic about their duties; and their performance in general was encouraging in view of the store's policy of developing the individual.

Questions

1. Was the division of authority over the assistant buyers conducive to smooth working of the organization?
2. Was Mr. Loomis justified in his belief that the new arrangement would work successfully in the long run?

General Administration 16

Freeman Department Store—Check on Mistakes and Courtesy of Salespeople

It has been found in the Freeman Department Store that a great deal of time, money, and effort can be spent by the executives of the store in building up good will only to have their purposes defeated by the lack of courtesy of some salesperson. Although the salespeople are carefully instructed in the importance of courtesy by the educational department when they are first employed, it is difficult to keep a check on their actual performance.

Discourtesy is sometimes reported by department managers, but usually only the more flagrant cases. Inattention and poor service are occasionally reported by customers, but frequently occurrences of this kind are not brought to the attention of the managers because a customer becomes so disgusted with the treatment she has received that she does not wish to have any further dealings with the store. From time to time the store superintendent has sent out employees to shop about the store and report on the courtesy and service of salespersons. Frequently, however, since these employees are known to the rest

of the force, they are not treated in the same manner as the average customer might be. Besides, the employee making the report is sometimes diffident about criticizing salespeople who are on the same basis as herself.

The merchandise departments have received some assistance from a shopping bureau which reports on the quality and price of merchandise sold by other stores as compared with goods on sale in the Freeman store.

It has been suggested by an outside shopping agency that the same advantages secured by the merchandise department through a shopping service could also be given to the personnel department by the same means. Under this scheme by the payment of a fee to the shopping agency the store would be shopped every week or two by employees of the agency, who would report on the service given by the employees of the store. Reports would be made to the superintendent on the attention received from the elevator girls, floor men, and salespeople with whom the shopper came in contact. In cases of inefficient service or discourteous treatment the employee would be summoned by the superintendent, who would explain to her the nature of the offense and take the proper steps to see that it was not repeated. The representative of the agency asserted that since all the employees of the store would soon know that a careful check was being made on the courtesy and cheerfulness with which they greeted customers and that the reports of the agency affected their pay and promotion, the quality of the service rendered by the entire force of the store would be improved.

The superintendent, however, learned that in the stores which had tried this system the stories told by the shopper employed by the agency and those told by the salesperson or other employee frequently did not agree. In several instances it seemed to him that inefficiency had been exaggerated by the shopper in order to make the store feel that the service was worth while because of the number of reports on poor service.

Question

Would it be advisable for the Freeman Department Store to adopt the shopping system as a check on the courtesy of its salespeople?

General Administration 17

Stewart Department Store—Sale of Merchandise to Employees

The Stewart Department Store has encouraged its employees to read its advertisements in the local papers in order that they may be better informed as to the advertising policy of the company and able to direct customers to special sales which are being held by other departments. To this end the store circulates proofs of its advertisements among the employees, who must sign their names on the back of each sheet as evidence that they have read the proof.

Recently, a number of customers complained that, although they came downtown early enough to be among the first of the store's customers, they were unable to secure many of the choicest things that had been advertised. Upon investigation it was discovered that employees were taking advantage of the information in the advertisement to secure for themselves desirable merchandise at bargain prices. Since salespeople were allowed to shop during the dull period immediately after their arrival at the store, this policy of the firm had resulted in giving them an opportunity to pick out the most desirable articles offered for special sale before the store's customers had an opportunity to make their purchases. Furthermore, salespeople in the department holding the sale had often put away some of the best bargains for their friends in the other departments.

Another point brought out by the investigation was that in the majority of cases the special discount privilege to employees was being abused, and that a large proportion of the force was buying merchandise for friends and relatives. This information was verified by checking up the total amount of discounts given employees in the past six month and comparing it with the probable amount of merchandise which each worker might reasonably be expected to purchase for her own use. It was not possible to prove which employees had been abusing this privilege, since individual records of purchases were not available except in a few instances where employees had opened charge accounts.

Questions

1. Should employees be allowed to take advantage of special sales?
2. What steps should be taken to prevent the abuse of the employees' discount system?

2. NON-EXECUTIVE

b. PROMOTION AND EMPLOYEE SERVICE

General Administration 18

The Randall Store—Educational Work

The Randall Store is a department store whose sales average between $8,000,000 and $9,000,000 per year. It has 69 departments, including men's, women's, and childrens' clothing, house furnishings, including electrical appliances, and personal service such as hairdressing, manicuring, and children's barber shop. The Randall Store building was constructed in 1913 in accordance with the most up-to-date practice in store construction of that time. Interior decorating fixtures and displays harmonize well and convey to the customer an impression of reliability, quality, and luxury.

When the new store was built the entire top floor was given over to the employees for a dance floor, lunchroom, and clubrooms. On the roof the store provided a place for various games and various forms of athletic competition. In addition to the provisions for the physical welfare of its employees the store built up an elaborate system of education for salespeople, in charge of the store's regular training department.

The store's educational work included three schools, the junior school, the senior school, and the general courses. The junior school was planned to give to junior employees training during a part of the day which would make up for what they missed by working instead of attending a public school. The course met each day for three hours in the morning. In addition to three hours each morning on subjects the same as those taken up in the public school, there was a brief session in the afternoon for physical training and music.

The senior school was designed to train junior employees of more than 16 years of age in subjects closely allied to business. This course, like the junior school, met during the dull hours in the morning, but instead of meeting daily, the senior school was held only twice a week. Its courses included current events, spelling, textiles, business arithmetic, personal finance, business finance, personal ethics, business ethics, store history, oral and written English, expression, store system, French pronunciation, home reading, physical training, and music.

The general courses were planned to carry on the work begun in the junior and senior schools, and to provide a general cultural background for employees who had been unable to secure the advantages of high school or college training. In this group of general courses there was included also the work of the training department for newcomers, and special courses for training workers in special departments. A list of the courses follows:

1. Extension work for juniors who have finished the junior and senior schools:
   - (*a*) Commercial Arithmetic
     - Mental
     - Decimals
     - Fractions
     - Percentage
     - Interest
   - (*b*) Mensuration
     - Lengths of Lines
     - Areas of simple plane figures
   - (*c*) English
     - Oral account of home reading
     - Spelling
     - Dictation of letters
     - Description of merchandise
     - Presentation of case to stranger on given facts
     - The study of biography
     - The study of history
     - Written exercises
   - (*d*) Miscellaneous
     - Store standards and customs
     - Ethics
     - Character building
     - General discussions by class
     - The directing of customers
2. Course for New Salespeople
   - (*a*) System
   - (*b*) Directing Customers
   - (*c*) Telephone Service
   - (*d*) Selling Service
   - (*e*) Courtesy
   - (*f*) Customs of the House
   - (*g*) Stockkeeping
   - (*h*) Schedule Tour
   - (*i*) Observation; Merchandise Section

   This course met from 9:00–11:00 in the morning, two days a week.
3. Intensive Training for Temporary People
   - (*a*) System
   - (*b*) Merchandise
   - (*c*) Stockkeeping
   - (*d*) Customs of the House

   This course met for five hours in the morning on days when required.

4. Course for Cashiers
   (*a*) System—half-hour, daily, three weeks.
   (*b*) Inspecting and Wrapping—half-hour, daily, three weeks.
   (*c*) Handling Money—one hour, two days.
   (*d*) Integrity—one hour.

5. Course for Inspectresses
   System and Wrapping—one hour daily, three weeks.

6. Course in Use of Cash Register
   One hour—two days.

7. Fire Protection
   Talks and Drills—Bi-weekly.

8. Salesmanship
   Conferences on Methods—one hour once a week.

9. Merchandise and Suggestive Selling
   Departmental and Inter-Departmental Meetings—as required.

10. Course in Reading
    (*a*) Merchandise Books
    (*b*) Efficiency Books
    (*c*) Inspirational Books
    (*d*) Business Books
    Two-year course.

11. Training for People in Credit Department
    (*a*) Addressograph Group
        I. Spelling of Names of Towns, States, etc.
        II. Geography—States and Capitals
        Half-hour, daily, four weeks.
    (*b*) Credit Clerks
        I. Spelling of Names of Towns, States, etc.
        II. Geography—States and Capitals
        III. Location of Merchandise in Store
        IV. Departments by Letter and Number
        V. Account Changes
        VI. Information Researches
        VII. Leases
        VIII. C. B. D., C. O. D., C. B. C.
        IX. Stop List
        X. Information File
        XI. Referred Schedules
        XII. Geographical File

XIII. Coins
XIV. Returned Checks

Subjects I to V are given to all clerks during the first five weeks of employment, one-half hour daily. Subjects V through XIV are given as need arises.

(*c*) Credit Group
I. How to Open New Account
II. Indexing
III. Refer Work
IV. Telautograph
V. Filing

NOTE.—System is included in all groups.
Much written work with final test.
Reassignment of people to proper work on basis of examination.

12. Preparation of Merchandise Manuals
(*a*) Books
(*b*) Gloves
(*c*) Shoes
(*d*) Furniture and Others

13. Corrective Work
(*a*) Blunders of Salespeople.—Staff of research workers.
(*b*) Constructive Training and Educational Assistants
(*c*) Investigation of Wrong Addresses, Omission of Parcel-Post Stickers, Etc.
(*d*) Store Correspondence

14. Spanish class once a week—Wednesday evening.

15. Health
(*a*) Actual work of store physician and staff
(*b*) Bulletins from medical department

16. Merchandise Course
(*a*) Yard Goods
I. Silk
II. Cotton
III. Linen
IV. Flax
V. Woolen

(*b*) Gloves
(*c*) Millinery
(*d*) Shoes
(*e*) Suits
(*f*) Dresses
(*g*) Coats
(*h*) Candy
(*i*) Shirtwaists
(*j*) Toys

Work rotates from department to department. Each department usually has two or three one-hour meetings a month, these meetings given over to discussion and semi-lecture, with some required reading.

When the war came on and various Governmental agencies urged all industries to eliminate non-essential departments and lower expenses, the store dropped all its former educational activities with the exception of a short three-day course in store system for new employees. It also inaugurated merchandise courses which were given at various times during the year for the store's contingent force, a force of sales employees maintained to work in any department which required extra help. The work of acquainting the employees with other matters which would normally have been undertaken through the educational system was done in occasional group meetings. Special educational problems were solved as they came up by devising a special method of handling the particular case. For example, in 1919 it was found that salespeople were very ignorant of the location of other departments in the store and were frequently unable to direct customers clearly to other departments. To remedy this matter a series of conferences was held. These conferences lasted an hour in the dull time of the morning and were so planned that every salesperson in the store could attend one conference a week. The conferences were held for groups of 50 salespeople, and were so arranged that each salesperson attended three conferences. The aim of the conferences was first to teach the salespeople to find out exactly what a customer wants; secondly, to impress upon them the importance of being able to direct the customer to any department in the store in a manner intelligible to one unfamiliar with the store. In conferences emphasis was placed on tactful handling of the customers and an attempt was made to show salespeople how to place themselves in the customers' position.

At the end of the three conferences, the group was conducted over three selling floors and were then questioned in such a way as to test their knowledge of the location of the departments and the merchandise on those three floors. A week later they covered three more floors, and so on, until the store had been covered.

Questions

1. When the Armistice was signed in November, 1918, and a return to normal business conditions was heralded, the question came up as to whether or not the store should reestablish its old educational courses.

2. What permanent educational courses should the store have established at this time?

General Administration 19

The Stanley V. Stoughton Company—Educating Salespeople in Merchandising

The Stanley V. Stoughton Company has long been doing pioneer work in methods of training and educating salespeople. Its training department was established a number of years ago and was one of the first departments of its kind in the country. This department takes over the work of acquainting new employees with the aims and methods of the store. For selling employees the course consists of instruction in the store system together with an explanation of the reasons why this system is made up as it is, and a description of the store organization and the functions of each division of the organization. There are also several talks or lectures which aim to give the prospective salesperson a grasp of the functions of the department store in the distribution of merchandise. These lectures also give the salesperson some information on the cost of doing business and on the percentages of gross and net profit in various lines and in the store as a whole. The Stoughton Company, in comparing its training department with the departments in other stores of similar size, that is, of $12,000,000 to $18,000,000 sales volume, has good reason to believe that its educational department is the leader. The department is under the direction of a manager of store training.

The president of the store, Mr. Stanley Stoughton, has thought for some time that although the training department fills a very important need, there is a branch of educational work which should be closely related to the work of the training department, but which this department is not fitted to carry on. The training department, according to Mr. Stoughton's views, has been organized to instruct employees in store system and organization and in efficiency work. The personnel of the training department is expert in this work, but is not trained, according to Mr. Stoughton, to appreciate or teach the science of merchandising. This science, to use Mr. Stoughton's words, "should include training in the sources, manufacture, and preparation of goods for market, and in the romance or story connected with the merchandise, and making the merchandise of interest to prospective purchasers."

Mr. Stoughton is convinced that this work of education in merchandising cannot be carried on by the training department, and he has determined to establish a new educational department in his store. A man has been employed as educational manager who has had considerable experience as a newspaper reporter and magazine writer, interviewing and reporting mostly on business subjects.

He is a graduate of one of the eastern colleges, and while a student did a considerable amount of amateur literary work. Mr. Stoughton has instructed the new educational manager to prepare a plan for teaching salespeople more about their goods and about selling, to have material printed to give the salespeople information, and to arrange lectures for them on these subjects.

The scheme worked out by the new manager is to prepare a pamphlet on each class of merchandise and on the various types in each class. One pamphlet is, for example, to cover silks, explaining the difference between a real silk and spun silk, the relative advantages of each, and the adaptability of each to the various methods of manufacturing silk. Other pamphlets are to take up the description of various types of merchandise frequently made from silk, such as hosiery, gloves, satins, and others. There are to be pamphlets on rugs in general, and on Chinese rugs, and Indian rugs; on cotton goods, and on cretonnes, ginghams, and other types of cotton goods.

These pamphlets are to be so written that they can be given to both salespeople and interested customers. The salespeople will be expected to study the pamphlets and the list of books included in the pamphlets. Only such explanations of the manufacturing process as can be made interesting are to be given in the pamphlets. The main emphasis is to be placed on the story of the industries producing the merchandise, in order that the salesperson can use this material to appeal to the imagination of the customer. The story can be made more interesting in some cases than in others; tapestries, for example, offer much romantic history which can be used to good advantage. Useful information with regard to the wearing qualities of the goods will, of course, be given. In all, the idea is to bring out the points about each article which will have the strongest appeal to customers.

The lectures are intended only for salespeople and are planned so that they will supplement the pamphlets. Much more detailed description of the merchandise can be given, and explanations of the technical details of the processes of manufacture or preparation can be made much more effective by means of the lectures. Also, it is hoped to carry over to the salespeople the enthusiasm of the educational manager for the use of such material in merchandising. In addition, each course of lectures is to contain a few talks on salesmanship. These talks are to be brief and are to be given at the beginning or at the end of the talks on merchandise in order that the salespersons may be reminded constantly of the principles which the educational manager hopes to impress.

Question

What suggestions might be made in regard to the organization and conduct of the merchandise training course planned for the Stoughton store?

Reference.—A description of an attempt similar to Mr. Stoughton's is given in the *Dry Goods Economist* for July 23, 1921, page 13.

General Administration 20

Parmenter Department Store—Supervision of Records and Follow-Up by Educational Department

In the Parmenter Department Store, new salespeople, after being hired by the superintendent, are sent to the educational bureau, where they receive instruction in their new duties. Here they study the employees' manual, attend the class on the proper way to make out sales, credits, and C. O. D. slips; and receive talks on the rules of the store, the proper clothing to wear, and the duties of employees. Floor men are given several days' instruction, including a tour of the store, but salespeople are turned over to the head of the sales department at the end

of their first day's instruction. During the first week, however, additional talks of one hour's length are given each day on such topics as the differences between woolen and worsted yarn, or on special points that should be understood in the manufacture or wearing quality of the different classes of goods. Demonstrations in selling and lessons in business English are also given.

When the employees are assigned to a selling department, they are placed in charge of a sponsor, who is an experienced salesperson. This sponsor makes the new employees feel that they have a friend in the department, and assists the educational bureau in further instruction work in the practical use of the sales slips and other records.

It has been found, however, that many mistakes occur in spite of the apparently thorough way in which the educational bureau instructs all salespeople. These mistakes have been reported by customers, department heads, cashiers, and auditors, whenever they have come across a particularly flagrant error. Since a great many of these mistakes are never reported, it has been suggested that an error record be kept covering all the mistakes made each day. In order to be sure that all mistakes are reported, it is planned to install a bonus system, paying cashiers and auditors for reporting the following errors:

10 cents—for check incomplete
5 cents—erasure not clear
5 cents—figures not clear
5 cents—figuring incorrect
5 cents—price not entered
5 cents—tax omitted
5 cents—amount received not listed.

It has not been decided, however, how the elimination of the errors reported is to be brought about. One way of handling this matter would be to sort the errors by departments and have each department head take the proper steps to see that they are brought to the attention of the people who made them and to prevent these mistakes from occurring again. Since the salespeople are directly under this head, it would be comparatively easy to handle the matter in this way. This policy, however, might cause friction and ill-feeling between the salespeople and the buyer. Moreover, the disciplinary measures taken by each buyer might not be uniform throughout the

store. Another method would be to have the floor manager take up the mistake with each salesperson. Since the floor manager has more or less a general supervision of the sales force, he could easily take care of this work. On the other hand, the floor manager does not come in as close contact with the salespeople as a department head and might not, therefore, be in so good a position to follow up and eliminate these mistakes.

It has been suggested that the sponsors should take up the question of correcting mistakes with the new employees. It must be remembered, however, that many of the mistakes are made by experienced salespeople who are not yet sponsors. It has also been proposed that the employment manager should call the employee to the office when the mistake has been made and have the employee sign his initials on a record card in acknowledgment of having this mistake called to his attention. This policy would help the employment manager to size up the various types of salespeople who made habitual mistakes, and this information might be of value in selecting new employees. On the other hand, this policy would probably result in the establishment of a routine system by the employment manager, and the educational value of error reports would be overlooked.

Since many of the best salespeople in the house make mistakes in their slips, managers are uncertain whether employees should be censored every time an error is discovered; and they are considering the advisability of having a shopper report, before disciplinary action is taken, on the service rendered by employees who make mistakes. They are also considering the advisability of a system of fines, which would penalize employees for the errors which they made.

Questions

1. Who should be responsible for the correction of errors?
2. What steps should be taken to improve the present educational system in the store?
3. What are the advantages and disadvantages of a system of fines on errors.

General Administration 21

J. P. Skeels & Son—Relation of Store Policies to Training of Personnel and Promotion

The firm of J. P. Skeels & Company began business in 1874 as a small grocery and importing house. By 1900 the business had grown to include, in addition to the original retail store, 11 branch stores in its city and in the larger suburbs, and a wholesale business of moderate size.

In 1900 the firm name was changed to J. P. Skeels & Son. Mr. Skeels retained the office of president, but turned over most of the routine management work to his son. Mr. Skeels himself devoted the greater part of his time to the broader matters of policy and to considering plans for the further expansion of the business. During the years immediately following 1900 it was not found advisable to open new stores; rather, the entire attention of the management was given to improving the quality of merchandise and service given at the stores already open, and to entrenching the company's brands more firmly with its clientele.

In the years following 1912, however, the management entered upon a policy of expansion which for this type of business was rather rapid. Stores were opened at the rate of one about every 9 or 10 months, so that by 1921 the company had a total of 27 retail stores. All these stores were located within a radius of 100 miles of the home city. The individual stores were fairly large, employing from 10 to 25 salespeople each. In addition, each store had one or more men whose entire time was devoted to the receiving of merchandise and the care of reserve stock. Each store had also its delivery service drivers and helpers. From all Skeels' stores merchandise was delivered by the stores' motor trucks to all points within a reasonable trucking distance. Beyond that, deliveries were made by freight or express, the store paying the transportation charges if the size of the order warranted.

Each store carried fresh fruits, green vegetables, candy and cigars, in addition to a complete line of the staple and fancy groceries. A specialty was made of the higher priced and imported lines which might be classed as luxuries. All stores had a large credit business.

It had always been Mr. Skeels' policy to have one salesperson assigned to the same customer month after month. This salesperson made it a point to satisfy his customers' wants whenever they came into the store and to fill all their telephone orders. In this way Mr. Skeels believed that the store could add a great many little personal touches which made for the successful handling of the account and the complete satisfaction of the customer. This relation between salesperson and customer went so far as to include the signing of letters by the salesperson in case of special orders or adjustments connected with the account. When a customer came into the store, however, the salesperson in charge of that customer's account would usually be in the grocery department. If the customer wanted to purchase something in the cigar, candy, or fruit department, or if something in that department was to be called to the attention of the customer, it was advisable that the salesperson in the grocery department introduce the customer to a salesperson more familiar with the other department. It was felt here that the detailed knowledge of the salesperson who gave his time exclusively to cigars or fruits would be a stronger force for building up good will and satisfaction with the customer than would service of a less experienced kind by a grocery salesman.

The Skeels Company had adhered to the policy of recruiting managers from the better salesmen in the organization or from store managers of smaller stores. Also, the Skeels Company had for over ten years been accustomed to rotating its store managers. In carrying out this policy store managers were moved every three to five years, whether or not their management was entirely satisfactory. The theory behind this policy was that a new man could almost always find in the store many things requiring attention which the previous manager, even though equally well trained and equally well qualified, had overlooked merely because of his familiarity with the store.

Salesmen and saleswomen in the stores were recruited from the outside by the store manager. The reputation of the company for fair treatment of employees and for paying ample wages made it unnecessary for the employment office to take any aggressive steps to secure prospects. Applicants for work were passed upon by the employment office and then set to work in the store, education and training being accomplished by

actual work and contact with customers and with the store system. In addition to this actual contact training, the vice-president was accustomed to give a course of lectures each summer during the off-days when business was dull. These lectures covered every product sold in the store. They gave the uses of that product, the original source, the steps taken in preparing the product for market, and the bearing this had upon the preparation of the product for the table. Any interesting stories which might add to the enthusiasm of employees were given in these talks, as were any traditions or bits of romance which the salesperson might use to arouse the interest of the customer in the firm's products.

In 1921, the Skeels Company was convinced that there was no more room for expansion in its local district and it was planning to begin, on a rather small scale, a business in New York which it was hoped would eventually develop into a chain similar to its original chain. This New York business was to be operated by the Skeels' management and the Skeels' capital, but under the name of Wanson & Toohey, Inc.

Question

In the New York store should the company have followed the same policies that it followed in building up its other business?

General Administration 22

Pingree Department Store—Selection, Training, and Promotion of Employees

Employees are secured by the Pingree Department Store occasionally by advertising in newspapers and trade papers. Often these advertisements are blind, and the name of the store does not appear. In the other instances the store depends upon securing employees from local employment offices or employs people who happen to apply at the store for a job.

Sometimes a person may be hired because he is recommended by an old employee or by a customer. At other times buyers on their New York trips occasionally secure desirable salespeople upon the recommendation of manufacturers and wholesalers with whom they come in contact. In securing extra employees for the holiday trade in December, the management of the store usually announces to its employees that it wants to make an addition to the present force and that it would be glad to give employment to those recommended. Notices to this effect are also posted in the elevators. Salesgirls to work part time during the rush period of the day are usually recruited from old employees who have left the store to marry and who now wish to work a few hours each week; or from high school girls who are anxious to make a little spending money.

According to the employment manager, whether or not it is desirable to employ people with previous training and experiience in department store work depends to a large extent upon the department in which they are going to be placed. For example, in hiring girls to sell neckwear, personal appearance is considered to outweigh previous experience. In the selling of coats, suits, and gowns, however, experience is considered of first importance. For this reason in the latter departments most of the sales force is recruited from juniors who are familiar with the merchandise and the methods of making sales, or from employees who have had experience in other stores.

The managers of the Pingree Department Store have found that a girl usually prefers office work to a job as salesgirl in a department store, because she believes that the former position gives her a higher social standing. Capable salesgirls, therefore, frequently leave the employ of the store to secure office positions without necessarily securing an increase in salary. In order to raise the dignity of department store work and to educate young people to the opportunities open to them in this field, the managers of the Pingree Store have induced the school board to install a course in retail selling in the local high school. Although this step has been partially successful, it has by no means remedied the situation.

As soon as new salespeople have been passed on by the employment manager and medical examiner they are given a short period of instruction in the proper way to make out sales,

credit, C. O. D., and other tickets which they must use. A list of 18 special problems covering the points which must be remembered in making out these tickets correctly is then given the new workers. Those who make a number of mistakes in working out these problems are asked to report for additional instruction the next day. Any person who fails to pass the problem test on the second trial is given up as hopeless. After this problem test has been passed, the new employees are given short sales talks and turned over to the department head to whom they have been assigned. Any difficulties which they may have in making out their tickets after they have reported to their departments are straightened out by the floor men or by experienced salespersons in the department.

It has been found, however, that many errors are made in making out sales tickets and in checking the merchandise sold. The salesperson's number is frequently omitted. The address for packages to be delivered may be incomplete, the figures incorrect, or erasures not O. K'd by the floor man. Complaints have been made that salespeople are careless in extending the price or in sending the right merchandise to the delivery room. Although the management has corrected each error that has been reported, it has never been considered worth while to keep a complete record of the errors that have occurred or to determine what types of errors occur most frequently. The managers are considering whether it would not be advisable to have such a record.

In the proper handling and disciplining of employees the management is also facing a difficult problem. The rule has been laid down that if an employee is late two or three times in a month she is called to the office. If she is late eight times or more in a month, she is given a green card instead of a white one. If she is absent without previously notifying her department head, or if she repeats her tardiness record the next month, she is given a red card, and unless she shows marked improvement within the following month she is discharged. This rule has not been uniformly enforced in the past, however, since many of the best salespeople have been flagrant offenders in being late for work, and the management has hesitated to antagonize them for fear it would lose their services. As a result of this practice, there has been much dissatisfaction among

the majority of the employees, and complaints of partiality are frequently heard.

Still another problem that is facing the management is the securing of high-quality service from their salespeople. In spite of the fact that special lectures are given by the educational bureau at the time the employees are hired, many salespeople continue to describe every article in their department as "smart" or "fascinating" instead of using good selling points in talking to the customer. Complaints have been made by the store's customers that salespeople often use such comments as "Gee, but that is a swell garment" or "This is a snappy little number. It is sure elegant."

Although special voluntary courses are offered to those workers who wish to learn the important points in the manufacture of the merchandise which they sell as well as the main selling arguments, few employees have availed themselves of this privilege.

Questions

1. What steps should be taken to secure better selection of employees?
2. What error records should be kept?
3. By what method should the present lax discipline be improved?
4. How should the management improve the salesmanship and service rendered by its salespeople?

General Administration 23

Rosenthal Department Store—Promotion of Employees

Several years ago the Rosenthal Department Store offered to sell stock to all executives above the rank of assistant buyer. The founder of the business was striving to build his organization for a successful future. He took this step to insure the loyalty of his employees and because he believed that it was difficult for a man to give his best efforts unless he had an

interest in the business. He hoped also by this policy to reduce the turnover among his executives.

Although this policy appeared to have many advantages when it was installed, it was found later that many inefficient buyers had secured stock in the company and were continued on the payroll because of this fact. Some of these buyers had been capable department heads when the business was young, but they had not grown with the expansion of the store, and consequently they have become a handicap to the progress of the firm. The directors have hesitated to discharge these men because they have feared that without their support friction would develop and the organization would go to pieces.

This policy has resulted not only in retaining a large number of the older and less progressive employees, but also in preventing the promotion of younger workers. The following case is more or less typical of conditions in the store: A young man had been in the employ of the store seven years; after four years he had risen to the position of assistant buyer in the china department. He was a capable man, and when a vacancy occurred in another department an attempt was made to have him fill the position. The buyer in the china department, however, who owned stock in the company, had no desire to lose the services of so valuable an assistant through his promotion or transfer to another department. He therefore reported to the directors that, although this young man appeared to be very capable, in reality he lacked imagination and merchandising sense, and that if the buyer had not assisted him at every turn, this young man would have long ago been discharged as incompetent. Because of the power of this buyer the managers of the store hesitated to go against his wishes, even though they knew this assistant buyer was capable and deserving of promotion. Becoming discouraged from his failure to gain promotion, this employee began to look for another job, and two years later left the employ of the Rosenthal store to accept a position with a competitor.

Other cases of this nature have occurred so frequently that much dissatisfaction has arisen among the force. Although the president and other executives realized that this condition resulted in unfairness and dissatisfaction, they did not consider the situation at all serious. The whole matter was brought to

a head, however, upon the sudden resignation of the advertising manager, followed by the leaving of five assistant buyers. When asked by the president why he was leaving, the advertising manager said that he was leaving because all the buyers were looking for special favors. Because he had refused to grant these favors, when to have done so would have been to the detriment of the store, these buyers had taken steps to prevent his promotion. Although he had appealed to the managers to support him in his policy, they had been afraid to discharge incompetent buyers because the latter owned stock in the company. Therefore, the advertising manager said he preferred to leave the company to accept a lower position with the prospect of fair promotion than to stay with the Rosenthal Company where it was practically impossible to install modern methods or to secure reasonable advancement.

Question

What steps should be taken by the executives of the Rosenthal store to insure a fair system of promotion and to improve the present organization of the store?

General Administration 24

Buckman Department Store, Feltman Department Store—Employees' Welfare Work

The Buckman Department Store is noted for the welfare work which it does for its employees. This company was one of the first to give free medical attention to its workers, and at the present time its medical department has a staff of two physicians, one dentist, one chiropodist, and five nurses. The store maintains a small hospital with men's and women's wards. Treatment is given at the store in case of accident or illness of employees in the building. If a worker is ill and absent from the store, she is visited by one of the nurses who sees to it that

she is receiving the proper medical care. In the case of people requiring hospital treatment, but who are unable to afford such service, the bills are often paid by the store.

A rest home is maintained in the country where convalescents can be sent to recuperate. Many employees also spend their vacations at this home, which is located on a large farm. This plan is operated strictly on a cost basis, and employees' bills are based accordingly. A camp for juniors is also maintained, where the younger employees of the department store can spend their two weeks' vacation if they care to do so. Separate camps are maintained for boys and girls under the charge of capable leaders, and the expense to those employees who take advantage of these camps is small.

In order to comply with the law requiring the instruction of juniors under 16 years not attending school, special classes were formed. Later this instructional work was extended until now night schools are run which teach business English, spelling, economics, mathematics, interior decoration, dressmaking, domestic science, and manual training. These classes are free to all employees of the store who care to take advantage of them. Special classes are held in the afternoon in the manufacture of textiles and salesmanship. These latter classes are taken half on the store's time and half on the employee's time.

A restaurant and cafeteria for employees is operated at cost. Restrooms and recreation rooms are also available for the use of all workers during the noon hour. Twice a week, during the lunch hour, dances are held and a 3-piece orchestra furnished by the store supplies the music. A gymnasium in charge of a physical director is maintained, and all salesgirls are given 15 minutes' physical drill each day on the store's time.

For recreation outside of store hours, boys' and girls' clubs have been organized, as well as clubs among the older people. These organizations are purely social and usually meet every two weeks throughout the year with the exception of the summer period.

A chorus of 200 voices made up of the employees of the store gives a concert annually under the direction of one of the best music teachers in the city. An orchestra of 40 pieces is also maintained by the store, as well as a theatrical club which gives a vaudeville show and play once a year.

A savings bank, run without profit to the firm, pays from 5% to 6%. About one-third of the force are depositors. A pension system, which was installed a number of years ago, pays three-fourths' salary to employees who have been with the store at least 30 years. This system has been popular, and although it has reduced labor turnover, it has brought about disadvantages. Since at the present time the average age of the employees is 42, and as many of these workers have spent from 15 to 20 years with the store, it is evident that within the next 15 or 20 years the store will have a heavy pension expense to meet. Because of this fact the store has made but little attempt to raise the wages, or to hold its older employees if they have received better offers from other stores, although, of course, there have been exceptions to this policy.

A mutual benefit association pays $200 upon the death of an employee. The store itself takes care of absence because of accident or illness. Temporary employees secured for the Christmas holiday rush are excluded from the benefits of this rule, but all workers who have been with the store for three months receive one-quarter pay during illness; those who have been with the store for six months, one-half pay; and all employees who have been with the store over one year receive three-quarters' pay. In special instances full pay has been given to valued employees who have been in the service of the firm for a number of years.

To take care of its girl employees, the firm has a bureau which keeps a full list of good rooming houses and which has charge of the operation of two clubhouses, where the girls living away from home may secure room and board at a reasonable figure.

An annual picnic is given in the summer and an annual ball in one of the best hotels in the city each January. In addition to these social affairs a twilight baseball league has been organized which plays games from the middle of May to the middle of September. Other leagues have been organized for bowling, basket ball, and rifle teams. Trophies are given by the store to the winning teams.

The directors of the firm consider that these contests are one of the best means of building up the morale of the force.

The Feltman Department Store, on the other hand, is opposed to welfare work among its employees. This store

maintains an excellent medical bureau, where all employees are given a physical examination before they are hired. Free medical service is also available at certain hours of the day, but no hospital services are maintained. Visiting nurses pay calls only in emergency cases where special medical attention is required.

A cafeteria, maintained primarily for customers, is also open to employees on the same basis. Locker rooms are available as a matter of course, and a well-stocked library, containing books particularly upon business subjects, is available for all employees who wish to better themselves by learning more about the business.

A careful check is maintained on general efficiency and sales per salesperson. The store never hesitates to discharge an incompetent employee, regardless of the length of time which he has served. Usually, if a worker has been employed during the greater part of his earning period, some arrangement is made to place him on a pension basis, but each case is judged upon its own merits, and a pension or other aid is never given unless the case requires it. On the other hand, it is the policy of the store to encourage all capable employees to fit themselves for better positions. Voluntary classes are arranged when a sufficient number of employees request them, but these study groups are held primarily to make the workers more efficient in their duties at the store and not to give cultural advantages. In order to encourage employees to fit themselves for better positions, it has been the practice of the store to select almost its entire force of executives from among the ranks rather than to bring in outsiders.

In explaining the policy of the Feltman store the merchandise manager said:

> This firm has tried to give a reasonable wage to each employee so that an efficient worker has an opportunity not only to make a fair living, but also to save enough money to take care of himself when his earning period is over. We believe that it is better to pay this amount of money in wages for increased services rather than to use it for welfare work and charity. This store does not believe in charity for all of its employees, for by such a policy the people who really need charity and help are often overlooked and many who should be able to "stand on their own feet" are encouraged to accept aid from the firm. In exceptional cases we are glad to assist our employees in every possible

way, but for the average case which demands charity there are the Red Cross and other charitable organizations to which we contribute and which are better fitted to furnish this service. In other words, we are running a merchandising house and not a charitable institution or old people's home.

Question

What are the relative advantages and disadvantages of these two policies?

General Administration 25

C. B. Maxfield Company—House Organ

The C. B. Maxfield Company, in a large eastern city, operates a department store whose sales aggregate slightly over $24,000,000 a year. The company has been in business for 21 years, and in addition to the usual dry goods and ladies' departments, the store carries men's wear, home furnishings, glassware, crockery, hardware, and toys. Its employees, including non-selling employees and minor executives, number between 3,200 and 3,500.

In order to keep more closely in contact with its employees, the store, in January, 1921, published the first number of a monthly house organ. This organ was a magazine of 40 pages, printed on good paper, with an attractive cover. It has been published each month since then. A former newspaper reporter, who was well versed in the work of compiling and editing, as well as in writing, was employed as editor. She was responsible to the personnel manager and had no other duties.

The magazine carries each month charts showing (1) the number of adjustments for the month compared with the number for the corresponding month of the preceding year; (2) similar statistics on sales in dollars; (3) similar statistics on sales transactions; (4) similar statistics on expense percentages for the store. These four charts are vertical-barred charts exactly alike

in general plan. At the beginning of the year four charts are made, each chart containing a shaded bar for each month of the preceding year. Between these shaded bars sufficient space is left for the insertion of the bar representing the statistics for the current year. These bars for the current year are inserted month by month as the statistics become available, and are in solid black.

In addition to the four charts, there are printed each month three tables showing (1) percentage of "lates" in selling departments (2) percentage of "lates" in non-selling departments; (3) error report; (4) honor roll of sales departments. The two tables showing percentages of "lates" are identical in form. Each has four columns as follows:

Column 1 Number of departments
Column 2 Average number of persons in departments
Column 3 Actual number of "lates" in departments
Column 4 Percentage of "lates" for departments

In both of these tables the departments are arranged in order of the percentage of "lates," the department with the lowest percentage of "lates" being listed first.

In the table showing the error report there are four columns, the first for the department number, the second for the percentage of errors, the third for the actual number of errors, and the fourth for the number of errors per person. In this report the departments are listed in order of percentage of errors, the departments with the smallest percentage being listed first. The percentage of errors is computed by dividing the actual number of errors by the opportunities for error.

The honor roll for sales departments is a table with two columns, one showing the numbers of the departments and the other the percentages of increases in sales during the month for the current year over the sales for the corresponding month of the preceding year.

In addition to these charts and tables, which are carried at the back of the magazine, there are four regular sections. The first, "editorials," is used for a few inspirational remarks by one of the officers of the firm or by an outsider. The second, "department notes," is a collection of long articles and brief bits of information describing records which departments have

made, changes in administration or equipment, discontinued services and so on. The third regular section, "personals," is filled with numerous notes, frequently illustrated from photographs, on the activities of various members of the organization from the president down. The fourth regular section is called "parliament news" and reports to the employees the doings of the store parliament. Along with the statistics and the four regular sections, the editor inserts each month one or two feature articles. These are usually from three to five pages long and include several illustrations. In the past these feature articles have been on such subjects as the organization and work of the foreign offices, the reports of elections to the store parliament, the working and equipment of the store's delivery service, and health notes by the store's physician. These feature articles are always written in an interesting, non-technical way to insure their being read and to build up among the employees a knowledge of and loyalty to the store.

The house organ is published by the store at an expense of approximately $600 a month. This item includes the salary of the editor. It is sold to employees at 5 cents a copy, all the money received being turned over to the employees' mutual society, of which all employees are members and which provides sick benefits, accident insurance, and small death payments.

Questions

1. Is the expenditure by the firm for this house organ justified?
2. If not, would it be justified if the magazine were changed in any way?
3. Should this organ be distributed to customers?
4. If so, under what circumstances?

2. NON-EXECUTIVE

c. METHOD OF PAYMENT

General Administration 26

Williams & Gaston—Payment of Salespeople

The Williams & Gaston Department Store has nine salespeople regularly employed in its ready-to-wear department. Although the store is not specializing on ready-to-wear, and although it is not putting special sales effort into the work of the department, the buyer has built up a good business appealing to women of moderate means. The other departments in the store, along with the ready-to-wear department, give an annual volume of sales of $9,250,000 to $10,000,000.

In one of the weekly merchandise meetings the buyer of the ready-to-wear department made the statement that Miss Brown, one of her salespeople, was invaluable to the firm. When the salespeople were ranked in order of volume of sales, Miss Brown headed the list. She had been the leader in the department for a number of years and was generally considered the best salesperson by all the department. When the buyer made this statement at the merchandise meeting, the controller questioned it, saying that he did not think Miss Brown to be nearly so valuable and that she might readily be replaced. This discussion led both the controller and the buyer to investigate the salespeople in the ready-to-wear department. It was found that Miss Brown led in volume of sales. It was found, also, however, that her average sale was about $23 and that her percentage of returns was second to the highest in the department. The investigation showed that a Miss Blanchard, who ranked sixth in the department in volume of sales, had an average sales check of $56 and practically no returns. These two salespeople were compared further, and it was found that Miss Brown was independent, overbearing, and hard to get along with, while Miss Blanchard was pleasing to her fellow-workers, and to the customers, and was always ready to do work assigned to her. It also developed that Miss Brown secured much of her large volume of sales by selling marked-down merchandise, which required little or no sales effort and carried no net profit. Miss Blanchard, on the other hand, made a

specialty of selling new goods and of seeing to it that her customers were satisfied.

At this time the salespeople in the store were paid a weekly salary that was determined at the time they entered the employ of the firm. In addition to this salary each salesperson received a commission of 3% of the amount by which her sales for the given week exceeded her quota for that week. The quotas were the amounts which each salesperson had to sell in order that her salary might be a certain percentage of her net sales. This percentage was varied from department to department because of differences in the difficulty of selling, differences in time required to make a sale, and differences in the character of the merchandise.

When it became clear to the controller that this method of paying the salespeople was leading to unjust appraisals of the worth of these salespeople, he brought the matter before the board of directors. The board desired to change the method of paying salespeople and suggested that the controller conduct an investigation among other department stores to determine how they were paying their salespeople and the success which each was having with the plan in use.

The controller made this investigation, but failed to find any method of compensation that seemed to suit his needs.

Question

What method could he have devised to insure that each salesperson would be paid according to her real worth to the firm?

General Administration 27

Dorr Department Store—Compensation of Employees in Department Store

For a number of years the employees of the Dorr Department Store were paid on a straight salary basis. This policy had been kept in effect because it was feared that if salespeople were paid on a commission basis they would try to force merchandise on the store's customers. Thus they might build up ill will and increase the number of returns and adjustments. The managers of the Dorr Department Store believe in paying what they term a reasonable living wage for good services and faithfulness to the store.

It was found, however, that this system of paying straight salaries brought about a great deal of dissatisfaction. In the first place, salespeople who received large increases in salary found that they had reached the limit of advancement and became indifferent to their work. In many instances the individual sales of these persons had fallen off more than one-half, but they were still receiving a high wage. On the other hand, there were a number of capable and efficient employees who had been overlooked when wage increases were made. Consequently, they were not being paid what they were worth to the store.

It was proposed, therefore, to establish a quota and commission system. The rates of commission would necessarily vary in the different departments, since the same rate would not hold for two departments so radically different as, for example, toilet goods and men's clothing. It was planned that these rates should be so adjusted as to be fair to all the salespeople, no matter in what part of the store they were located. In order to arrive at a just rate, the wages of the sales force were compared with the total sales in each department. In the art goods department, for example, the wages of the sales force were about $5\frac{1}{2}\%$ of the net sales. Thus, if a girl were paid \$16.50 a week, she ought to sell \$300 worth of merchandise in the same period. As an added inducement for employees to make their quotas, and to make it easier for them to earn commissions, it was planned to consider wages as 6% of the sales quota required instead of $5\frac{1}{2}\%$. Hence, a girl being paid \$16.50 a week would have a weekly quota of \$275 instead of \$300. The commission on sales

above this quota, however, would be only 5%, in order to offset the lowered amount of the quota.

The objection to this plan, however, was that when a larger percentage was allowed for the quota than for the commission it would be to an employee's advantage to ask for as high a salary as possible, since the salary was figured at a larger percentage than the commission. Consequently, there would be a tendency all along the line for employees who were earning large commissions to ask buyers to raise their salaries higher than those of the girls who were selling a smaller volume.

Another objection to this plan was that in December sales in most departments were much easier to make than in January or July; consequently, the earnings of the salespeople would vary greatly from month to month. In fact, during the dull months a good salesgirl might fail to sell her quota; as a result a large part of the commission she earned during the next month might be wiped out. It seemed to the managers of the store that such a situation would only discourage the employees, and that the girl who had fallen far behind would lose all interest in the plan and might become so dissatisfied that she would leave the store to enter the employ of a competitor.

The second plan proposed was to vary the percentage of the quota from month to month in order to offset this seasonal fluctuation and make it possible for salespeople to earn commissions throughout the year. By this plan a salesgirl in a millinery department, where large sales can be easily made in March, September, and October, would find that while her salary remained the same, the percentage of her quota would be much lower than in the other months, so that in order to make a commission she would have to sell a much larger amount of merchandise. On the other hand, when her sales volume fell off in February, her percentage of quota would be increased, so that after she had made comparatively few sales she would be placed on a commission basis.

It was a part of this plan that two-thirds of the commission earned should be paid with the last weekly wage of each month. The one-third retained by the store would be held as a reserve against possible losses through failure of the employee to make the sales quota in the following months of the year. This "commission reserve account" would be balanced at the end

of each year and the employee paid the amount due her at this time. This plan would work out as illustrated by the table shown below:

ART GOODS DEPARTMENT

SUMMARY OF COMMISSION PLAN

Commission 5%

	Average Per Cent of Sales to Total	Average Per Cent of Selling Cost to Total	Normal Per Cent of Selling Cost to Total	Three-Year Average Per Cent of Selling Cost	Plan Per Cent of Quota
February	5.11	5.64	6.00	8.00	7.50
March	13.62	10.28	11.50	5.47	5.50
April	9.66	8.67	9.00	6.51	6.00
May	8.65	8.49	8.50	7.11	6.50
June	7.66	8.37	8.25	6.02	7.00
July	4.76	6.72	7.00	10.23	8.00
August	5.58	5.99	6.00	7.78	7.00
September	13.71	9.99	11.50	5.28	5.50
October	11.82	11.70	10.50	7.17	5.75
November	8.91	10.38	8.50	8.45	6.25
December	5.26	6.02	6.25	8.28	7.50
January	5.26	9.75	7.00	13.41	7.50
Total	100.00	100.00	100.00	7.29	6.50

The objection to this scheme, however, was that the plan was complicated and that it might be difficult to arrange equitable percentages for each monthly quota. Moreover, it would be difficult for many of the salespeople to figure out the commissions which they had earned and, consequently, some of them might be suspicious of the store's policy. Furthermore, the one-third of the commission held back by the store in order to cover possible failures to make the quota in following months might easily be wiped out through a failure to make the quota during two or three dull months.

It was feared that either commission plan would increase the number of returns, since the salespeople would be over-anxious to sell enough merchandise to make their quotas and a commission as well. It was thought that many customers hesitate to refuse to buy goods if the salesperson is insistent, preferring to accept them with the idea of returning them later. In case the sales slips were returned with the merchandise, it would be comparatively easy to deduct these returns from the sales of the proper employee. The managers were undecided as to what policy to pursue when the sales slips were not returned.

To maintain the reputation of the store for fair treatment of its customers, it seemed to them almost imperative that goods be accepted for return even though the sales slips were missing. But if the unidentified returns were deducted pro rata from the sales of all the employees of the department, it was thought that efficient salespeople would be unfairly handicapped by the mistakes of less capable people. On the other hand, unless the unidentified returns were deducted in some manner, the store might lose a large amount of money by paying unearned commissions, and salespeople might become careless in making out sales slips and giving them to customers.

Questions

1. What plan of compensation for employees should have been adopted by the Dorr Department Store?
2. How should unidentified returns have been handled?

General Administration 28

Farlow-Childs—Varying Methods of Compensation in the Same Store

There are 68 departments in the Farlow-Childs Store. Up to four years ago a straight salary was the only plan of compensation for salespeople. Since that time both commission and bonus have been introduced. At present the only departments on a straight-salary basis are millinery, handkerchiefs, art needlework, books, toilet goods (sold mostly by demonstrators), umbrellas, furs, pictures, and lamps. In each of the other departments, salespeople are remunerated according to some system based on the amount of sales.

No attempt has been made to secure uniformity in methods of paying employees. Furniture and rug salesmen are paid a flat commission of 4% on net sales. Each salesman is allowed to draw $50 over and above what he is entitled to as commis-

sion on sales. When this $50 has been drawn, compensation ceases until sales are made. In the men's clothing department the commission is 5% with the same drawing account.

Most of the departments pay regular salaries and allow a bonus for all sales in excess of an established quota, which must be reached before extra compensation is receivable. The minimum salary for women is $12 a week; for men, $18 a?week. These minimums apply to women who are at least 18 and men who are at least 21. The majority of the selling personnel is remunerated by a salary plus a commission for sales over a quota. Salaries range from $12 to $15 a week for women and from $17 to?$25 a week for men. The commissions and the quotas vary. In the upholstery department, for instance, a woman receives on an average $14 a week and a commission of 2% on all sales above a quota equivalent to 20 times her salary. In the same department, men receive $20 on an average and 1% on sales above their quotas. In most departments the quota is 25 times the salary. There are three or four cases of seasonal variation, as in the dress-goods department, where the quota is 25 times the salary in the fall and 20 times the salary in the spring, and in men's furnishings, where the quota from January 1st to October 31st is 20 times the salary, and from November 1st to December 21st 25 times the salary. In small wares, a commission of 3% above the weekly salary is paid for all sales in excess of an amount equivalent to $16\frac{2}{3}$ times the salary of each salesperson. In the shoe department, in addition to salary, there is a straight commission on all sales, deducting returns and allowances, of 4%, 5%, 6%, and up to 10%, varying with the cost of the shoe sold.

It is the intention of the management to put wages in all departments on some sort of commission or bonus basis as far as possible. In some departments, such as the fur department, it may prove more practical to continue the straight-salary method of payment.

All non-selling employees, however, will continue to draw a fixed weekly sum with no opportunity to win a bonus. Various schemes for awarding commissions to non-selling personnel on the basis of personal efficiency or group efficiency have been considered and discarded because of the difficulty of devising a satisfactory standard of performance by which to award bonuses, and because of the expense of operating such a system.

Questions

1. Should the management try to secure a higher degree of uniformity in its system of compensation?
2. Is the management justified in its stand regarding non-selling employees?

General Administration 29

Farnsworth Store—Uniform Wage to Sales Force

Varying methods of compensation are employed in the Farnsworth Store, a well-established department store with sales between $9,000,000 and $10,000,000. In certain departments salespeople are paid a flat salary. In others their wages take the form of a straight commission as high as 4% and even 5% on all sales minus returns and allowances. A combination of salary and commission has likewise been adopted, according to which members of the selling force receive a salary, ranging for the most part between $15 and $30 a week, and also a bonus in the form of a commission. This commission amounts to from ¾% to 1% of all sales, regardless of returns and allowances. The size of the bonus, depending upon past sales records, is so calculated as to enable a reasonably good salesperson to make $1 a day above the regular fixed salary.

It has been the policy of the store to place the best salesmen in such departments as furniture, men's suits, and women's dresses, where the executives believe the highest qualities of retail salesmanship are required. The poorest salespersons are relegated to certain lines of kitchenware, notions, piece goods, and easy-selling haberdashery, such as nationally advertised collars, hose, and underwear. In a single department, high-and low-paid salespeople work side by side. For instance, in the shirt department are two salesmen specializing on silk shirts. Their salaries are $30 a week. Their bonus, on sales averaging over $150 a day, is ¾%. At the opposite counter is a man

selling underwear who receives a flat salary of $22 a week and no commission.

Two salesmen, one in the furniture department and one in the men's suit department, actually draw more pay than their respective buyers. The attitude of the higher executives towards this situation is that these salesmen, who are both paid on a straight commission basis, deserve all they are receiving. Every dollar that is paid to them means so much more business for the store.

Recently, a new employment manager was engaged. He feels that the policy of the Farnsworth Store, regarding the compensation of employees, is unwise. For segregation of the best salespeople in departments where the average sales check is large he would substitute an even distribution of the most successful salespersons throughout all the departments of the store. As an ideal he would urge an equal salary for all salespeople. This, of course, he realizes is unattainable, but he is convinced, nevertheless, that the extent of present inequalities can and should be lessened. The employment manager also holds that department store executives deceive themselves when they place their least efficient salesgirl behind the small wares counter to sell buttons, on the ground that anyone can sell buttons. The result will be that only buttons will be sold. If a real salesgirl were substituted for an order taker, a woman calling for buttons would not be allowed to leave without thread, needles, or some other articles. Furthermore, the employment manager suspects that potential sales are lost by such employees as silk shirt salesmen, who after the completion of a sale prefer to talk silk shirts to another customer rather than inquire if the man who bought the shirts wants to see ties and socks to match, or new-style collars.

The employment manager has not been able to put his theory into the form of constructive, practicable suggestions, capable of being submitted in writing to the president of the store.

Questions

1. How could the change in policy which the employment manager has in mind be put into effect?
2. Is the change advisable?

General Administration 30

The Abermarle—Reducing Salaries and Discharging Employees

Mr. Judd, president of The Abermarle, a large department store, believes that it is very unwise under any circumstances to cut the salaries of employees. This he bases on an experience of his when he was made general manager of a medium-size department store in a large New England city. Shortly after taking over the management of this store, Mr. Judd came to the conclusion that a large number of employees were overpaid. He made a list of 35 names—among others, assistant buyers, chief stock clerks, and employees in the office and receiving room—and very carefully decided, on the basis of salaries that were being paid by other stores both in that city and elsewhere, just how much these jobs were worth. He showed this plan of reducing salaries and wages to the owners of the store, who told him to go ahead with it.

When the plan was accordingly put into effect, half a dozen of the employees affected left shortly afterwards. The rest were so disgusted by what they considered grossly unfair treatment that from then on they made trouble for Mr. Judd, directly as far as they dared, and indirectly by criticizing everything he did and decrying the management at all possible opportunities. Before long, Mr. Judd realized that before the organization could be run smoothly it was necessary to get rid of every one of those whose salaries had been cut.

Since this experience, Mr. Judd has made it a practice, whenever he felt that an employee was not worth what he was costing, to discharge him and hire someone else at a lower figure.

In the summer of 1920, Mr. Judd's business had suffered to such an extent as a result of the deflation of prices that it was necessary to curtail the cost both of the selling force and the non-selling employees. He decided to discharge 20% of his employees, a reduction which he figured would bring the total personnel in line with conditions of business. This decision did not meet with the approval of the other executives of the store, who argued that in case of future expansion it would be difficult to build up the organization again, and that the arbitrary discharge of a large number of workers would create resentment

on the part of the general public against the store. Such resentment, they believed, would not be aroused by a general reduction of wages, which would be in line with Government and newspaper propaganda to reduce the cost of living, labor, and everything else. They also felt that it would be possible to bring about such a general reduction without destroying the morale of the employees.

Question

Which method of liquidation should have been employed?

General Administration 31

J. P. Skeels & Son—Payment of Salespeople in a Large Grocery Store

When the firm of J. P. Skeels & Son began the expansion of its business, immediately following 1912, it found that the methods of paying salespeople which had been developed and used during the preceding 10 or 12 years were not well adapted to the new characteristics which the business assumed. Accordingly, it was found advisable to develop a new method, and various circumstances led the management to specify that this new method should provide for paying salespeople in such a way that they would be encouraged to distribute their sales among the various lines of merchandise carried in approximately the same proportion as the sales for the store as a whole were distributed among these lines. In other words, the management wanted a system of paying salespeople which would discourage excessive selling of low-profit staples and encourage a proper balancing of sales between low- and high-profit lines.

In the store sales slips were made out for all transactions, each slip containing all the articles purchased by the customer, regardless of whether these articles were taken from more than one department. In the office these slips were audited for prices, extensions, and totals, and then turned over to a statistical force which analyzed the sales into 13 classifications as

follows: tea, coffee, butter, eggs, sugar, flour, canned fruits, canned vegetables, candy, perfumery, tobacco, fresh fruits, and mineral water. This minute subdivision of the sales data enabled the firm to follow its demand more closely than other stores did and, it was believed, resulted in greatly increased profits.

In the store, expenses were not departmentized, and hence J. P. Skeels & Son was quite justified in calling these divisions merchandise classifications rather than departments.

The method of paying salespeople which was developed was a variation of the familiar commission-on-net-sales method. It was specified that each salesperson should receive 3% of his net sales, provided that in those sales he maintained the same ratio between the various classifications of merchandise that had been maintained by the store as a whole in the preceding year, or that had been set up by the management as normal for the store as a whole. In case the salesperson in any one month did not maintain this balance or this ratio, there was added to or deducted from the 3% on his net sales a proportion of that 3% equal to the per cent by which the salesperson exceeded or fell short of the amount of gross profit required. The commission earned by each salesperson each month was computed on Form 90 which appears on the next page.

It will be seen from this form that for purposes of calculating commissions five general classifications of merchandise were set up. For each of these classifications a normal or required percentage of gross profit was set up as indicated in the column headed "Gross Profit Rating—%." On the line labeled "Total Sales," was shown the total sales which a salesperson had made during the month and the total gross profit which he had earned for the company. On the next line was shown the gross profit which he would have earned on the volume of business done had he maintained the proper balance between the five classifications.

This required amount of gross profit was taken at 100%. The difference between the required gross profit and the attained gross profit was calculated and expressed as a percentage of the required gross profit. The next step in calculating the commission was to multiply the total sales by 3%. The resulting figure was the commission which the sales-

Form 66

Commission Account for the month of December 1920

NAME	TALLY	DEPT	STORE
	3	Groc.	10

CLASS OF MERCHANDISE	NET SALES		GROSS PROFIT RATING %	GROSS PROFIT RATING AMOUNT		PERCENTAGE OF Required Rating Attained
Tea and Coffee	681	89	30	204	57	
Butter, Eggs, Sugar, Flour, and Mineral Water	1747	79	10	174	78	
Canned Fruits and Vegetables	351	51	25	87	88	
Fresh Fruit, Candy, and Perfumery	111	79	30	33	54	
Sundry Groceries	2113	38	21	443	81	
TOTAL SALES	5006	36		944	58	
Average Rating Required			22	1101	40	= 100%
Average Rating Attained						85.76%
Under ~~Over~~ Required Rating				156	82	14.24%

3 % Commission on Net Sales	150	19	
Add % of Excess req. rating Deduct 14.24 % on acct. of under req. Rating	21	39	AUDITED
COMMISSION EARNED	128	80	APPROVED
Amount drawn from Nov. 28 to Dec. 29	94	50	APPD for PAY'T
AMOUNT DUE OVER PAYMENT	34	30	SPECIAL APPROVAL

FORM No. 90. J. P. Skeels & Sons—Form for Figuring Salesman's Monthly Commission

person would have earned if he had maintained the required balance in his sales among the various classifications. In case the gross profit attained was less than the gross profit required, there was deducted from this normal commission a percentage of that commission equal to the percentage by which the gross profit attained fell short of the gross profit required. In case the gross profit attained was greater than the gross profit required, the commission was increased in a similar manner.

During the business depression of 1920 and 1921, it became necessary for the Skeels company to decrease its overhead expenses wherever possible. As one step in reducing the office expense, the store decided to reduce the number of classifications of merchandise from thirteen to five. All the dry grocery classifications were combined, along with mineral water, into one group, the four remaining classifications remaining unchanged. The store then arranged and marked its sales slips in such a way that no one slip would contain merchandise falling into more than one classification. Thus the analysis of sales could be made in the same operation as the auditing and verifying of the figures. This change in the classification of merchandise and sales figures enabled the store to reduce its statistical force by more than one-half. This change in the method of analyzing sales broke down the old division in the basis of mark-up percentages, and hence made it possible for the store to continue its old method of paying salespeople. In place of the former method there was substituted a straight weekly salary, in addition to which the store paid a commission of 2% on what it termed "specials." The salesperson himself kept a record of his sales of these specials; this record was checked by the auditing department from copies of the sales slips, and a monthly check, separate from the ordinary pay check, was issued in payment. This extra commission on specials was established in the grocery department only. In the departments handling fresh fruits, candy, perfumery, cigars, and tobacco, salespeople were paid on a straight salary only.

Questions

1. Assuming that J. P. Skeels & Son was able to dispense with the services of 10 clerical employees in the office as a result of the changes described, was the saving sufficient to offset the loss sustained by the firm in sacrificing the more detailed figures?
2. What should the firm have done under the circumstances?

General Administration 32

Brockhurst Stores, Inc.—Payment of Sales Force in a Grocery Chain

The Brockhurst company operates 170 retail grocery stores in a large eastern city. Weekly sales in these stores range from $400 to $1,800. The stores carry groceries, potatoes and onions, some fruit, but no meats, no bakery goods, and no green vegetables.

All merchandise is supplied from a warehouse located in the southern part of the city. The offices of the company are also situated at this point. Practically all the accounting is centralized in the company's main office. The central employment office supervises the hiring, training, discharge, and promotion of employees. The smaller stores are run by one man alone. In some of the larger stores there is a regular full-time assistant to the manager; others use the services of boys on one or two afternoons a week. All these stores are operated on a cash-and-carry plan. The managers deposit cash daily. Inventory is taken monthly. Managers are furnished with blanks on which to requisition goods. These order blanks are compared with their weekly reports at the main office in order to keep some check on stocks carried. Goods are delivered from the warehouse by truck and are billed to the stores at retail price.

Over each group of 15 to 18 stores there is a superintendent, who calls on each store daily. The company has at present nine superintendents. These are divided in groups of three, and over each of these groups there is a supervisor. The employee-management department is coordinate with the supervisors. All these are directly responsible to the head of the firm.

The Brockhurst Stores, Inc., plan to operate on a labor cost for salaries of managers and assistants not to exceed 5% of net sales. It was felt desirable that the salaries paid should be in some degree dependent on the weekly volume of sales of each store. It was suggested that some plan be adopted, such as making a manager's salary $25 a week plus 1% of net sales.

Questions

1. Work out a plan for payment of managers and other sales force which will meet as nearly as possible all these requirements.

2. In what way should supervision and control over managers' and assistants' salaries be exercised?

3. Who should be responsible for keeping managers' and assistants' salaries within the 5% limit?

The present practice of the Brockhurst stores is to make its most successful store managers into superintendents, but it has been found that successful store managers are not always good superintendents.

Question

Suggest a more effective method of selecting and training superintendents.

The employment manager of the Brockhurst company is trying to devise a system of rating applicants for positions as store managers.

Question

Suggest a form for such rating.

It is planned to get out a small book of instructions for managers and assistants.

Question

What should such a book contain?

This company believes that it is essential to keep all its employees, particularly store managers and their assistants, interested in the affairs of the enterprise as a whole.

Question

Suggest methods of accomplishing this.

General Administration 33

Armstrong & Davis—Methods of Paying Sales Force in a Retail Jewelry Store

Armstrong & Davis have a medium-sized jewelry store in a western city. Mr. Armstrong is an especially good judge of precious stones and has a large personal following among the customers of this store. The volume of sales in this store was approximately $540,000 in 1918. Up to that year the sales force had been paid on a straight-salary basis. Most of them had been with the firm for a number of years and were allowed to sell merchandise in any department of the store. This store had the following departments:

Gold Jewelry	Optical Goods
Sterling and Plated Jewelry and Emblems	Art Goods
Diamonds and Precious Stones	Leather
Watches, Clocks	Sterling Silver
Novelties	Plated Silver
Stationery	Silver Toilet Ware
	Miscellaneous

In 1918 the management saw that it was necessary to increase the remuneration of the sales force. They decided to accomplish this by giving, in addition to the salaries already paid, a commission of 1% on their net sales. This plan appeared to be satisfactory for the first six months in which it was in operation, but after that some friction developed. Some of the younger

men on the sales force, who had been with the firm only a short time and were not regarded as competent to sell in all departments of the store, grumbled because they had no chance to earn commissions in the diamond and precious-stone department, where sales were the largest. Another potential cause of bad feeling developed whenever a customer, after taking up the time of one salesman in looking at various articles and then saying that he wished to look elsewhere, eventually came back and made his purchase of some other salesman. In many cases, of course, customers asked for the salesman who had originally shown them the goods, but these salesmen were not always free to serve them.

When the first question of this sort arose, Mr. Armstrong, the president of the firm, made the rule that the salesman who actually closed the sale was the one to receive the commission. Mr. Armstrong himself usually spent a large part of each day on the floor, selling. Many of the firm's best customers always asked for him when they came in to make a purchase. Being the principal stockholder, Mr. Armstrong saw no point on paying a commission to himself on these sales. Since there seemed to be some discontent because of the feeling on the part of the salesmen that Mr. Armstrong made many of the largest sales, he decided to give the commission in each case where he made a sale to the salesman who, in all probability, would have made the sale if Mr. Armstrong had not been there. Frequently, he tried to have some one of the salesmen actually close the sale when he himself had brought the customer up to the point of buying. Although Mr. Armstrong made every effort to be as fair as possible in doing this, he found that some of the salesmen, behind his back, were accusing him of playing favorites.

Question

What would be the most equitable method of paying the sales force in this store?

General Administration 34

Warden Shoe Store—Method of Paying Salesmen in a Retail Shoe Store

Mr. Ralph Warden, who has had 10 years' experience as a manager in shoe stores, has accepted the exclusive agency for one of the best made and most expensive brands of men's shoes in a large city where these shoes are practically unknown. Mr. Warden is planning to lease a store in the best locality available. At the start, he intends to engage three salesmen to assist him. There may be no need for more than two salesmen, but Mr. Warden has made arrangements to visit the factory once a week, a trip which will require at least one day, and he wants to make certain that the service which he extends to the public will be satisfactory.

The brand of shoes that Mr. Warden will handle is advertised with national circulation in a small way. It is his intention, however, to do some direct-by-mail advertising, toward which end he has secured a list of 10,000 professional men and leading business men in his city.

Question

Upon what basis should Mr. Warden pay his salesmen—straight salary, commission and drawing account, salary and bonus, or salary and bonus for sales above a quota?

Notes for Instructors

One of the best retailers in Boston, whose situation resembles that described in the problem, believes that the highest class men's shoe store salesmen should be paid a salary and nothing else. A commission or a bonus, according to his opinion, will result in sales at the expense of service and such abuses as improperly fitted shoes. He wants his customers to be accorded the best possible treatment and given as much time as necessary, or they think necessary, to insure satisfactory fitting and leisure for comparing styles.

General Administration 35

G. S. Parker, Inc.—Minimum Wage Legislation

Mr. G. S. Parker is the president and majority stockholder of the department store operated by G. S. Parker, Inc., in a large city in the Middle West. Mr. Parker's store has sales of somewhat under $10,000,000 a year, and employs in the neighborhood of 1,500 persons regularly. The Parker store is one of the better retail establishments in the city, and has achieved a considerable degree of success in its attempt to carry only merchandise of a thoroughly dependable quality, and sell that merchandise at a fair price. The store's prices are frequently higher than those quoted elsewhere for similar articles, but it is rarely that customers are able to secure better value in any other store. The store building and the personnel are not out of harmony with the quality of merchandise carried.

In the legislature of the state in which Mr. Parker's store is located, two minimum wage bills have been introduced. One of these is modeled after the Massachusetts legislation and provides for the establishment of an "Industrial Welfare Commission to establish such standards of wages for women and minors as shall be held hereunder to be reasonable and sufficient for the decent maintenance of such employees." The commission is to be composed of five persons appointed by the governor. The bill provides: "It shall be the duty of the commission to ascertain the wages of women and minors in the various occupations, trades, and industries in which women and minors are employed in this state." Power and authority are given to call for statements, examine books, subpoena witnesses, and administer oaths. The bill goes on to provide: "If, after investigation, the commission shall find that in any occupation, trade, or industry the wages paid to female employees are inadequate to supply them the necessary means of living, and to maintain them in health, the commission is empowered to call a conference composed of an equal number of representatives of employers and employees in the occupation or the industry in question, together with one or more disinterested persons representing the public; but the representatives of the public are not to exceed the number of representatives of either of the other parties; and a member of the commission shall be a mem-

ber of such conference and chairman thereof." This conference shall conduct a hearing and otherwise investigate the industry, trade, or occupation in question, and if it deems it necessary, decide upon a minimum wage for that industry, trade or occupation. The findings of these conferences shall be reviewed by the commission, and if found satisfactory, promulgated by that commission in the form of regulations. Subsequent sections of the bill provided for the enforcement of these regulations, special licenses for freeing individuals or groups from the effects of the act, penalties for violations of the act, and other routine provisions.

The other bill is much simpler and provides: "It shall be unlawful for any regular employer of female workers in this state to pay any female employee less than the wage in this section specified, to wit:

"For minors, under the age of 18 years, not less than 75 cents per day; for adults, learners, and apprentices, not less than 90 cents per day, provided that the learning period or apprenticeship shall not extend for more than one year; for adults who are experienced in the work they are employed to perform, not less than $1.25 per day."

Either of these bills would apply to the employees of retail establishments, and Mr. Parker's store would not be subject to exception.

Both bills are widely discussed in the press. In the discussion of the former bill the arguments brought out have been mainly the common well-known arguments cited in the main from a publication of the Commonwealth of Massachusetts' Minimum Wage Commission, entitled "Preliminary Report on the Effect of the Minimum Wage in Massachusetts Retail Stores," *Bulletin No. 12*, (published November, 1919). The arguments brought out in the press for and against the second of the two bills are, in Mr. Parker's opinion, of little worth, and he bases his opinion with regard to what might happen under the bill, if it became law, on the following letter from a department store owner in California:

The chief effects of the California minimum-wage law upon my store, as near as I can determine, are:

First, the $10-minimum-wage law was first enforced in September, 1917. Its direct effect on our payroll was less than a week. During

1918 our average weekly wage increased 21.8% while the minimum wage remained constant. In June, 1919, the wage law was increased 35% to \$13.50 per week. During that year our average weekly wage increased 39%. In September, 1920, the minimum wage law was increased 18.5% to \$16 a week. During 1920 our average weekly wage increased 14%. These percentages are figured on positions lower than department heads and executives. The law forced the wage higher for all workers receiving more than the minimum.

Therefore, the theory that the law would effect only those experienced workers receiving less than the minimum is erroneous.

Second, the fact that our per cent of selling cost to sales decreased during the period of January, 1917, to December 31, 1920, may be partly due to increased efforts by the workers because of the higher wage paid and partly to the increased prices brought on by the war conditions.

Third, in September, 1920, when the minimum wage was increased to \$16 a week, the learner period was cut from two years to one year. For the individual who is slow to learn one year is not long enough for her to become an experienced worker, and it may be necessary for her to seek other employment. Otherwise the difference between the minimum wage and that of more experienced workers would not be in proper proportion. When the learner period was two years it offered the learner a longer time to become experienced. If in the two-year learner period the worker quickly grasped the work and was equally as efficient as the experienced worker, she was in all probability increased accordingly. If her employer did not advance her wage commensurate with her effort and before her learner period had expired, she probably sought employment with a firm that would recognize her ability.

Fourth, because of the higher wage pay a more intelligent group of people have been attracted. Generally speaking, these people learn more quickly and more can be trained for higher positions. They use better judgment in carrying out the various duties assigned to them, and require less supervision.

Mr. Parker is a member of the Chamber of Commerce in his city, of the State Merchandise Association, of a commercial club comprising retailers in a number of middle western states, and of the National Retail Dry Goods Association.

Question

Which of these two bills should Mr. Parker favor, and what action should he take?

References.—In addition to the publication of the Massachusetts Minimum Wage Commission listed above, see *Bulletin No. 167*, Bureau of Labor Statistics, United States Department of Labor, "Minimum Wage Legislation in the United States and Foreign Countries" (published in April, 1915), and other publications of the United States Bureau of Labor on labor and minimum wage legislation.

B. FINANCIAL

General Administration 36

Frank J. Disbrow—Financial Policy and Relations with Banks

In the spring of 1921, Frank J. Disbrow had practically completed plans for opening a retail store in one of the larger cities in the Middle West. Mr. Disbrow's store was to handle chiefly ready-to-wear clothing for women, misses, and children, and the lines usually associated with ready-to-wear clothing in women's specialty shops. In addition, however, the store was to carry yard goods, draperies and shoes, thus giving it some of the characteristics of a department store.

Mr. Disbrow was about 35 years of age and had had 15 years of experience in merchandising; that is, in buying and selling. His associates believed him competent in this field. In addition, his long experience in specialty stores and department stores had given him considerable familiarity with the various types of store systems and had, he believed, qualified him to set up in his own store a suitable system. Mr. Disbrow was at a disadvantage, however, in that he had had practically no experience with the broader problems of management and especially with the problems of financing a business. The lack of experience in this field was not handicapping him particularly in starting because he had, in his own savings and in the money of friends, sufficient capital to supply stock, building, and fixtures.

Mr. Disbrow felt keenly his lack of experience in financial matters and wished to seek advice on the financial problem of retailing before launching his enterprise. Accordingly, he wrote to one of his friends who was the treasurer of an old, well-established retail business in Chicago, asking him to set a time at which they might meet and discuss in a general and more or less theoretical way the problems of financial policy which are faced by retail stores both new and going. This proposal was readily accepted by the Chicago man.

At this meeting the treasurer of the Chicago store began as follows:

Your problem, Mr. Disbrow, will be quite a bit different from mine; and hence, in order to give information which will help you most, I will have to place myself in the position of the treasurer of a new store,

for the most part. Our relations with banks are governed very largely by the fact that we are an old company with a well-established credit. When we want to borrow money we go to banks and ask them for it. There is rarely any question or any desire to have us take less than we ask for. Since I have been with the firm, no bank has asked me for a financial statement. We carry deposits in six banks, giving the largest deposit to the bank which handles our payroll payments and which, hence, does for us the most clerical work. When we need money we go to one of these six banks. In normal times we borrow on note. In times of tight money we believe it a little more fair to take loans on collateral, and at the present time for this collateral we are drawing on our stock of Liberty bonds.

Here, Mr. Disbrow interrupted with a question:

I understand that some stores are concerned with the problem of whether they should invest their cash surplus in securities and then borrow money from the banks in order to take their cash discounts, or carry their cash surplus as deposits at the bank and thus be enabled to take their cash discounts without resorting to loans. What are your ideas on this question?

The treasurer replied:

In any individual case the answer to that question is very largely a matter of arithmetic—calculating the amount in interest from the investment and setting it over against the expenditure in interest on the bank loan. As a matter of principle, I have found it good policy to use my banks. Using your banks reasonably will tend to help your credit position more than the ordinary man might suppose. It keeps them accustomed to loaning to you and familiar with your face and your business. If ever a time comes when they must discriminate in granting loans, discrimination will tend to be in favor of those with whom they are familiar. Also, banks are in business to loan money. As a depositor you are not giving them so much business and so much opportunity for profit as you would if you were borrower as well as a depositor. In borrowing, therefore, use your good judgment. Do not borrow to excess and do not ask favors, but get the lowest rate you possibly can by competition. It has been my experience that business men respect good business in others and that they are much more ready to trust a man whom they recognize as a good business man than one whom they feel is not a good business man. No man in business does himself any good by being an "easy mark."

In establishing yourself in business you must remember that there are three great bodies toward which your sales efforts must be directed. In the first place you have got to sell your public. Through them you obtain your business, and without their support you are helpless. In the second place, you have got to sell your resources, the people from whom you buy. If you are to share in the many buying opportunities

which they will have for you, if you are to get the slight edge of competition which will enable you to forge ahead, you must be solid with your resources. In times of a falling market the friendship of your resources will help you just as the friendship of your banker will help you in a period of tight money. If discrimination is necessary, that discrimination will not be against you. Also, friendly resources not only will give you the benefit of their best prices and of their advice when you ask it, but they will advise you of special offerings and of sudden turns in the market which will enable you to get ahead of your competitors. Here I may add that in our business we have found it most important in this matter of securing the good will of those from whom we buy to make no returns unless there is a very evident reason. In the third place, you must sell your banker, because it is from him, in all probability, that you will draw considerable of your working capital. In selling all three groups, remember that in the long run, the only thing that will sell them is genuine fair dealing. The moral hazard must be eliminated, and if you have ordinary intelligence you are quite likely to be successful.

In your first business year you will find yourself in a more difficult position than, with reasonable luck, you will be in in any succeeding year, because at one and the same time, in that first year, you will have to convince all three of the groups of your integrity and ability. You know yourself, I think, enough about how to make your position strong with the public and with the resources. With regard to the latter, however, I would like to advise you to discount all your bills. People who are in business like to sell merchandise and like to get their money for it and, by and large, a seller would rather deal with a man who pays promptly than with one whose word is as good as gold but who is slow.

As regards your relations with the banks, in the first year you will find them inclined, probably, to stand firmly on your financial statement and perhaps inclined to give little weight to that statement because of the fact that it includes no past. You, personally, are likely to get from the banks moderate credit. My advice to you is to be very careful not to strain this credit. The treasurer of a newly established business must be very diplomatic if he is to get all the credit he needs without giving his bank the impression that he needs money or that he needs too much money. Above all, the new treasurer must convince the bank that the new store's merchandise policy is sound. Do not let your banks feel that you are doing a reckless business. Rather, show them that you are running on sound business principles and earning a sound profit. When you set out to catch the public go about it in such a manner that you will feel, and your bank will feel, that you are going to get your bait back. Create the impression that back of it all is a fundamental soundness and that in spite of mark-downs, in spite of leaders, in spite of excellent values, you are getting your profit; that you realize that these devices for getting acquainted are not a regular thing in your business and that you are charging them off as advertising. In the second place, if you would convince your bank

that you are sound, keep your accounts receivable cleaned up at all times. Of course, that may seem axiomatic. Finally, get along with as little money as possible from the banks, and, in borrowing what little you do borrow, keep your cards on the table. Make your bankers feel that in your position they would do just as you do.

You want to be most careful, I think, to reason out these three fundamental relationships which I have mentioned; that is, those with the public, your resources, and the banks. Any one of these could put you to death and quickly. In your business, especially where you will have keen competition and where you must keep up with the styles in order to meet that competition, the importance of resource good will can hardly be overestimated.

Remember, too, that there is no real competition between these three interests. If your business is fundamentally sound it will get on perfectly well with all three interests. You, I think, are in an excellent position to build up a successful business, for, of the three groups, the public group is the most fickle and hence requires the closest study. You know the public group well. It will be much easier for you to acquire familiarity with the financial group.

Another principle can be summed up in the words, "Keep part of your surplus liquid." As I implied some time ago, we now keep most of our surplus in Liberty bonds. In case we did not have all these Liberties I would be in favor of placing part of our surplus in tax-exempt, short-term securities rather than tying it up in merchandise or plant. That would give me a more liquid surplus which I might use in case of emergency either to supplement my borrowings from the bank or to avoid borrowing entirely in case I believed that to be the best policy. I say that I would put my surplus into tax-exempt securities because I figure that these could be carried without any charge. No doubt I would not make as much money on the surplus tied up in these securities as I would make on it if I invested it in the business. However, that difference would be the cost of the security, that is the safety, which I had purchased.

As you go on in business I think you will find that, unless you are in a position of relative insecurity, your financial problems will not bother you much.

Here, Mr. Disbrow suggested:

What is there in a time like this, I mean in a time of declining markets and general feeling of hesitation, which gives rise to peculiar problems in dealing with the banks?

That is a good point. In a time of declining prices a retailer must impress his banker with the fact that he is taking his loss and also that he is keeping his inventory clean. These two things are not to be confused. Not only must you keep your goods marked down to something like replacement values, but you must keep your inventory free from dead and slow-selling stock. In any case, do not wait for

your banker to prod you to suggest that you better depreciate your inventory. Remember that the manufacturers, in a time of declining prices, are more or less working against you. They shout to the public that they have marked their stuff down and reduced their prices and if the retailers would only do likewise business would boom again. By this very shouting they stick the goods on your shelves by making the people believe that lower prices are coming. The manufacturer, in addition to making statements in the press, is very likely to urge his bank to call its retail loans and thus force liquidation. Of course, that is a natural thing for the manufacturer to do and perhaps, from the point of view of the public, it is the heroic method to take, but it often seems more expedient to make the drop more slowly. Your position, therefore, must be invulnerable. The keynote, here as elsewhere, is to run your business on sound principles. See that you, at all times, keep things well under control. Your banker is sure to ask you, "How are your commitments running?" Be able to tell him that they are one-half, or one-third, or one-quarter what they were last year. He will consider that a good sign. This does not necessarily mean that your inventory will be smaller at any one time than it was last year, but that you are not committed to take a lot of high-priced stuff; that you are free to do as the market dictates. Another point is that the banker will consider it a good sign if, in a declining market, your inventory is smaller than the preceding year or years. In such a case the inevitable shrinkage will be on a smaller amount of sales and the absolute loss less. Finally, and this point can hardly be emphasized too strongly, your banker will want to be assured that your stock is clean and saleable; that you can get 100% on the dollar for your retail inventory; that your asset column is not padded by the inclusion of a lot of merchandise which will not bring what it is marked. The whole matter is very largely a question of management. If your management is good, your banker will not worry and you are likely to have little or no financial problem. If your management is weak, shifty, and uncertain, he will worry and you will have a financial problem.

Question

In framing plans of operation for his business, what principles among those mentioned by the treasurer of the Chicago store, should Mr. Disbrow use as a basis?

General Administration 37

Armstead, Bolton, and Case—Securing Capital for a Hardware Store

Mr. Armstead has been a salesman for a manufacturing and wholesale hardware company for the past 11 years, during which time he has covered most of the states east of the Mississippi and north of the Ohio Rivers. He therefore considers himself to be familiar with most of the problems of the hardware dealer. He believes that there is a good opening for a new store in his own town in Kansas, since the population is growing rapidly. Several small factories have been built within the past two years, and there are only five hardware stores now established in the town, which has a population of approximately 65,000.

Mr. Armstead has interested Mr. Bolton, who is employed in the auditing department of the same company, in his plan. Before he was transferred to the auditing department, Mr. Bolton had had three years' experience as assistant purchasing agent. He has held his present position for almost four years, during which time he not only has become familiar with the accounting methods of his own company, but he has been called upon to advise a number of the retail customers of the company on the installation of new accounting systems. It is proposed that Mr. Bolton should handle the purchasing and office end of the business and that Mr. Armstead should manage the store.

Mr. Bolton has saved about $7,000, which he could invest in such an enterprise. Mr. Armstead has about $5,000 in cash and could raise $5,000 more by a mortgage on his house and by selling some bonds which he holds in a public utility corporation. In order to purchase the stock required, and to be in a position to grant the credit which would have to be extended to customers, particularly in builders' hardware, it is necessary to secure additional capital. The hardware company by which both Mr. Armstead and Mr. Bolton are employed is willing to extend a reasonable line of credit to the new firm, but the latter would lose the benefit of cash discounts through their inability to pay cash promptly. Mr. Armstead is well known in his town and undoubtedly could secure a loan of $8,000 or $9,000 because of his reputation for honesty and industry and because the bank officials believe in his ability to make a success of the new venture.

Mr. Case, a real estate agent, who is a director of one of the local banks, owns stock in a grain elevator in the town and is part owner of a new moving-picture theater. He has suggested that if Mr. Armstead and Mr. Bolton will incorporate and give him a third interest in the new hardware store he will furnish $40,000 capital. The profits would be divided equally among all three members of the firm, the salaries of Mr. Armstead and Mr. Bolton to be taken out of their respective shares of the profits. If this offer of Mr. Case should be accepted, it would insure the new firm's having enough capital to discount all its bills, extend credit to all desirable customers who needed it, and carry on a two years' advertising campaign. At the same time a small amount would be left as a reserve for emergencies.

The principal disadvantages to this scheme, from Mr. Armstead's point of view, is that he would lose control of the company. He is not anxious to put time, effort, and money into an organization which may be controlled by men who have not had his practical training in selling hardware, since he regards the selling end of the business as the more important. On the other hand, Mr. Armstead is not at all sure that the present capital of the firm is large enough to insure success even if it is augmented by a bank loan of $8,000 or $9,000.

Question

What steps should Mr. Armstead take to raise capital for his proposed store?

General Administration 38

Thomas H. Campbell, Inc.—Employment of Capital

During the past 25 years, in a large western city, there has been a fairly rapid growth of large neighborhood shopping districts, each of which is the trading center for a population of 20,000 to 100,000. In one of the more recently developed of these centers the Thomas H. Campbell store was established in 1910. This store draws its customers from nearly 9,000 people within a radius of about three miles. The district is made up of the lower middle class of industrial workers and a slightly higher class of salaried people. In 1920, the business reached a volume of $1,460,000, distinctly a record for the store. During that same year its average stock was $269,000. This stock included a representative line of dry goods, a large assortment of notions, women's and children's ready-to-wear, a small rug department, kitchenware and small household furnishings. In that year, the store established a children's barber shop and a beauty parlor, both of which seemed successful.

In 1914, Thomas H. Campbell, Inc., had bought the land and building where the store was located. The building had been improved and enlarged until in 1920 the property was valued at approximately $800,000. The Johnson Real Estate Company in 1921 offered to buy the site and the store for $790,000 and to rent the building to Thomas H. Campbell, Inc., for a long term of years at satisfactory annual rental. The Johnson company owned the land and buildings adjacent to the Campbell store in the direction in which the store would normally expand, and they offered to include in the lease a clause providing that this adjacent property should never be leased to a company other than the Campbell company for use as a department store unless the Campbell company should refuse to take a lease at the same figure offered by the other store.

The district about the Campbell store was growing rapidly in both population and purchasing power. Mr. Campbell felt that the store should be enlarged, but he had found it inexpedient to borrow additional capital to provide for expansion.

Question

Should Thomas H. Campbell, Inc., have accepted the offer of the Johnson Real Estate Company?

General Administration 39

Upton Department Store—Balance Sheet

Since its founding, 34 years ago, the Upton Department Store has had a reputation among its customers for handling merchandise of medium grade and for following conservative policies in opening new charge accounts. When the books were closed for the last fiscal year, the accounts showed the balances which appear below. For the purpose of testing his new assistant, the treasurer asked him to draw up a report showing a classified balance sheet on which the items should be listed under the following headings:

Assets	Liabilities
Current	Current
Other Assets	Other Liabilities
Deferred Charges	Reserves
Permanent	Capital
	Profit and Loss—Surplus

In this report, the assistant was asked to include a statement of the additional amount of credit the bank would probably be willing to grant the Upton store. He was to determine this amount from the balance sheet and to give the reasons for his conclusions.

Notes of store held by First National Bank for money borrowed	$500,000.00
Net inventory of merchandise on hand January 31	746,439.96
Reserve for Federal Excess Profits Tax	6,500.00
Value of land and building	900,000.00
Due McElwain Co., for merchandise bought on account	29,133.14
Cash on hand in tills	2,175.38
Note of Dougal Ware held by store	9,143.08
Preferred stock outstanding	500,000.00
Mortgage on land and building held by Guaranty Trust Co.	352,500.00
Value of fixtures	63,884.30
Merchandise bought by customers on credit	443,599.66
Bank balance	60,400.60
Notes of store held by Roger McElwain for merchandise bought	20,433.00
Reserve for losses from bad debts	3,500.00

Net inventory of delivery equipment	$ 12,689.81
Liberty bonds	2,086.48
Notes of store held by Harold Caley, money borrowed	26,000.00
Due Donald & Co., for repairs and alterations	19,613.68
Interest due on real estate mortgage	10,575.00
Supplies on hand	18,202.52
Common stock outstanding	500,000.00
Interest due on notes of store held by bank and others	14,044.33
Interest due store on note of Dougal Ware	274.29
Invested in securities	64,504.18
Prepaid insurance premiums	4,729.80
Prepaid taxes	10,000.00
Undivided surplus	355,830.91

Question

What report should be made to the treasurer of the Upton store?

General Administration 40

Henry V. Manners, Inc.—Financial Statistics

The department store of Henry V. Manners, Inc., in a large eastern city, has the following departments:

- Cotton dresses and aprons
- Kimonas, bath robes, and petticoats
- Glassware
- Silks
- Men's clothing
- Boys' clothing
- Small wares
- Books
- Trunks and bags
- Waists
- Women's coats
- Millinery
- Art embroidery goods
- Blankets and bed coverings
- Costumes
- Soda and candy
- Upholstery
- Women's suits and skirts
- Women's and children's shoes
- Shoe findings
- Infants' wear

Jewelry	Furs
Toilet goods	Children's dresses and coats
Wall paper	Linens and towels
Sewing machines	Floor coverings
Talking machines	Girls' wear
Pianos	Umbrellas
Underwear	Draperies
Neckwear and laces	Curtains
House furnishings	Men's shoes
Yard goods	Handkerchiefs
Men's furnishings and underwear	Gloves
Boys' furnishings	Leather goods
Toys	Clocks
Stationery	Hair goods
Hosiery	Beauty parlor
Sweaters	Optical
	Shoe shine

The store's sales average approximately $6,325,000 per year, and the customers are drawn largely from the lower middle and middle classes. They are largely factory workers and salaried people of small incomes. The store leases its jewelry, leather goods, clock, hair goods, beauty parlor, sewing machine, talking machine, piano, and optical departments.

In the winter of 1917–18 the board of directors felt the need of more detailed statistics on the financial situation of the company. They directed their controller to prepare a list of the reports which should be furnished to the board, the list to be ready at once in order that the new series of reports might begin with the new fiscal year, February 1, 1918. The controller prepared the following list of reports:

Subject	Date Report is Due
1. First preferred stock	When changes occur
2. Second preferred stock	When changes occur
3. Common stock	When changes occur
4. Notes payable	When changes occur
5. Merchandise accounts payable	18th of month
6. Expense accounts payable	18th of month
7. Gift certificates outstanding	15th of month
8. Money found and held for owner	15th of month

9. Cashiers' averages	15th of month
10. Reserves for federal income tax	15th of month
11. Reserve for fur storage rent	15th of month
12. Reserve for merchandise depreciation	September 15th
13. Reserve for depreciation—notes receivable	When changes occur
14. Reserve for depreciation—fixtures	15th of month
15. Reserve for depreciation—equipment	15th of month
16. Reserve for depreciation—charge accounts	15th of month
17. Dividends on capital stock	April 15th and October 15th
18. Profit and loss account	January 31st
19. Undivided profits	January 31st
20. Profit and loss by departments	25th of month
21. Net profits and per cent of sales by departments	25th of month
22. Depreciation of earnings	January 31st
23. Merchandise and net profit and loss	January 31st
24. Net earnings	January 31st
25. Departments showing merchandise loss, 5 years com.	January 31st
26. Departments showing net loss for year	January 31st
27. Cash receipts and disbursements	15th of month
28. Cash balance first of month	15th of month
29. Charge accounts sales and balances	15th of month
30. Number of charge accounts	15th of month
31. New charge accounts opened	15th of month
32. Charge accounts, outstanding balance	15th of month
33. Adjustments with charge customers	11th of month
34. Losses on customers' charge accounts	January 31st and July 31st
35. Uncollectible charge accounts written off as worthless	January 31st and July 31st
36. C. O. D. accounts receivable	15th of month
37. Investments	When changes occur
38. Charge accounts over six months old	18th of month

39. Cost of handling charge accounts	January 31st, April 30th, July 31st, October 31st
40. Interest accrued or paid in advance	15th of month
41. Prepaid insurance	15th of month
42. Prepaid employers' liability insurance	15th of month
43. Prepaid insurance, Fur Storage	15th of month
44. Anticipated insurance rebates, Fur Storage	15th of month
45. Prepaid advertising, Fur Storage	15th of month
46. Deferred expense	15th of month

Questions

1. Should all these reports be compiled for statistical purposes?
   (*a*) If not, which ones should be dropped?
2. Should any additional statistical reports be prepared for the board of directors of this store?

General Administration 41

The Moorfield-Blakey Store—Voucher System for Accounts Payable

In handling its accounts payable, the Moorfield-Blakey Department Store enters its invoices on a voucher printed in the form on the next page.

On this form is entered monthly the date, the name of the resource and its address, the terms, and the dates and invoice numbers of the invoices which the store wishes to pay. In entering the invoices the office enters the face of each invoice and totals these figures. From this total are deducted all the credits taken from any of the invoices, and all the discounts. The final result is the net amount of the invoices listed. A carbon duplicate is made when the voucher is made out. The

Telephone 1769

No. 8999 THE MOORFIELD-BLAKEY STORE

.... 19...

M...

....

Enclosed please find check in settlement of account as stated below.

Terms........................ THE MOORFIELD-BLAKEY STORE

Date		Invoice							

Instruct your bookkeeper to mail us a statement the first of each month of all unpaid bills, due and not due.

No receipt required.

original is perforated so that it can be removed from the book. The carbon is not perforated, but remains in the book to serve as a medium from which entries are made to the ledgers, and to serve as a check stub. The original and duplicate bear the same serial number.

From the clerk who fills out the vouchers, the original goes to the cashier. She writes a check for the net amount of the voucher, giving the check the same number as the voucher serial number. When signed, the check and the voucher are sent to the manufacturer.

It has been suggested that the store could simplify its paper work by providing a form which was a combined voucher and check. According to this plan the company would use a slip of paper about the size of the ordinary business house check, or perhaps a little longer. At the left-hand end there would be a form providing columns for the dates, the invoice numbers, and two columns for figures, one for listing the items and one for

extensions. The duplicate of the voucher would here serve as a check stub and would be made by a carbon inserted when the voucher and check were written. Under this arrangement the writing of checks by the cashier would be dispensed with, and the voucher clerk could do all work connected with listing the invoices, writing the checks, and mailing.

The sales of the Moorfield-Blakey Company for the last three years have been between \$1,235,000 and \$1,650,000. This store carries dry goods, women's and children's ready-to-wear, and house furnishings, the house furnishings including electrical appliances, kitchenware, and victrolas and records.

Question

Should the store change to the suggested system?

General Administration 42

Philips Department Store—Trade Acceptances

The Philips Department Store is one of the best known retail establishments in the state in which it is located, having been founded in 1871. It has always had a reputation for carrying high-grade merchandise and for giving excellent service to its customers. Many people within a radius of 100 miles trade with this store, and occasionally its customers come from even greater distances. The directors are jealous of the store's reputation, since they are convinced that the good will of its customers is mainly responsible for the building up of an annual sales volume which now totals over \$11,000,000.

The Philips store has a high financial standing with the banks in its locality. It always takes all its discounts and rarely resorts to borrowing. The store takes pride in always meeting its financial obligations when they are due, however, and has never asked for an extension of a loan, even though its finances might be temporarily cramped in order to meet this obligation.

This store has never used trade acceptances, because, as the treasurer explained, it would injure the store's credit. He stated that banks would not be as willing to make loans to the firm if Philips Company paper were floating about the country. Furthermore, he objects to the use of trade acceptances on the ground that it changes accounts payable to notes payable, thereby changing the legal aspect of the situation. Moreover, if trade acceptances are used, bills cannot be paid before they are due, because it is not known to whom the money is due. Also, the Philips store is unfamiliar with trade acceptances and for that reason alone is not anxious to begin using them.

This company has always taken its discounts. It has sometimes secured 30- or even 60-day datings on its bills. In other words, a bill may be dated ahead 60 days, and the store can take its discount if the bill is paid within 10 days after this advance dating. Recently, a manufacturer, from whom the store has received favorable terms in the past, has adopted the policy of sending a trade acceptance attached to each bill. These trade acceptances are made out for the amount of each bill less the discount and have 60 days to run to maturity.

Question

Would it be advisable for the Philips Department Store to use trade acceptances under these conditions?

General Administration 43

The Cotter Department Store—Leased Departments

Mr. Norton, who has had several years' experience as assistant superintendent of a large department store, has been asked to take over the management of The Cotter Department Store. This firm was established in 1871, and for a number of years did a flourishing business in a medium-sized town in Massachusetts. Failure to change its methods to meet modern competition has resulted in the store's becoming practically bankrupt. Because

of lack of capital the stocks have not been kept up, and for the past three years the number of customers has fallen off steadily.

Although at the present time small loans could be obtained from banks, the amount of money secured in this fashion would not be at all adequate. Furthermore, the loans might mature at a period when stocks would have to be sold at an additional loss in order to secure the money to meet them. It is not possible to borrow at all extensively from private sources, since large stocks of obsolete merchandise are on hand.

The plan which Mr. Norton is now considering is to lease four of the main-floor departments to outsiders with an agreement that they must take over the present stocks at a certain figure. He has found four men who are willing to take over the jewelry, novelty, art goods, and dress goods departments. If these stocks are taken over, the firm will receive approximately $15,000 in cash from each of the four departments. With $60,000 Mr. Norton believes that he will be able to make marked improvements in his other departments. Under this arrangement the cash from the sales in the leased departments is to be handled at the central cashier's station in the same manner as that from the store's owned departments. A statement will be made for the lessee once every month. The store is to deduct its commission in forwarding the balance by check, since this check will not be forwarded until the third or fourth day of the month. The store manager will always have a certain amount of the money from the cash sales of the leased departments in his possession; thus he not only will secure a profit from these departments, but also will have a fair amount of cash on hand with which to bolster up the rest of the store in case he wishes to stage special sales with a quick turnover during the middle of the month.

At the end of three years, when the leases have expired, Mr. Norton expects to take over these departments again and bring them up to the high standard that he expects to have established for the rest of his store. Mr. Norton does not believe that it pays to lease departments in the long run, for if a department can make money for the lessee he thinks it should make money for the store. Moreover, the lessee always considers his problems different from those of the rest of the store, and he often wants a different policy toward customers

in effect in his department. Under the present circumstances, however, Mr. Norton believes that it would be well to lease the four departments mentioned in order to put the store on its feet.

Question

What are the advantages and disadvantages of the plan proposed?

General Administration 44

Quinn Department Store—Insurance

Mr. James Quinn is faced with the problem of deciding what forms of insurance he should carry in the operation of his department store. About one-third of Mr. Quinn's sales volume of $1,347,000 is handled on a credit basis, and a substantial number of the purchases are delivered by the store's auto trucks. The head bookkeeper handles all of the funds, and fulfils the duties of a treasurer. Mr. Quinn owns the 4-story brick structure in which his store is located. This building has a freight elevator in the rear and passenger elevators near the main entrance. A steam-heating plant is located in the basement. The store has a sprinkler system.

At the present time the only insurance carried by Mr. Quinn covers loss by fire on his building and stock. Upon talking over the matter of insurance with the controller of one of the largest stores in the country, Mr. Quinn was surprised to learn that this firm carries about 30 different forms of insurance. The controller is held responsible for keeping insurance in force and for making renewals at the proper time. The principal policies carried by this store are as follows:

Fire insurance is carried on buildings, stock, fixtures, auto and delivery equipment, and merchandise in transit. The insurance on merchandise in transit covers only salesmen's "floaters," since the store carries a separate policy covering the loss of goods

while being delivered. In order to secure the proper amount of insurance on the stock, the net inventory figures at retail are estimated each month from the records of the sales, purchases and mark-downs. Since this store is on the retail method of inventory, the cost of the stock on hand can be easily computed and the stock insured at 80% of its cost value.

In addition to fire insurance, policies are carried covering general public liability, which insure the store against claims or suits for damages from customers or outsiders injured in the store. Contractor's public liability insurance protects the store against claims for injuries received during the alteration of the present building or the construction of an addition. Because of the great danger from elevator accidents a special elevator-liability insurance is carried. Workmen's compensation insurance guards the firm against loss from paying damages to any employee who may be injured. Automobile liability insurance protects the store against damages for injury, and an automobile property policy takes care of all losses which may be incurred through the damage of property by delivery trucks. Boiler insurance covers any loss which may result from an explosion of the heating plant. Another policy covers leakage from sprinklers, and water damage not accompanied by fire from other sources is also guarded against.

Parcel-post packages are insured as a matter of course, and policies covering the loss of merchandise taken out of the building for repair are considered important, as is the insurance on furs in storage. Other policies cover losses from burglary and the possible holdup of paymasters and messengers on their way to and from the bank.

Group life insurance is carried for the benefit of the store's employees, the firm not being the beneficiary in any case. The amount of insurance given each employee varies from $500, if the person has been with the store for three months, to $3,000 after 11 years' continuous employment. On the other hand, to protect the store against losses from forgery and the embezzlement of funds, forgery bonds and employee's fidelity bonds are carried.

This store does not carry use and occupancy insurance, which would protect it against loss of business caused by fire. Since the building is fireproof and an efficient sprinkler system has

been installed, the danger of loss from this source is considered small. Profit insurance is not carried for the same reason and credit insurance is not considered desirable because the conditions under which credit must be granted are not applicable to the retail trade. Under the credit insurance policy no credit can be granted unless the customer is listed in Dun's or Bradstreet's. Plate-glass insurance is not carried, because the loss from breakage of this type has been very small in the past and the firm considers it less expensive to carry its own insurance against this type of loss.

Question

What forms of insurance should Mr. Quinn carry in the operation of his department store?

General Administration 45

Moore Dry Goods Store—The Sales Tax

For a number of years, Raymond Moore has owned and operated a dry goods store in a middle western city of 20,000 population. His store is located on one of the most valuable corners in the business district, and in 1920 had a sales volume of about $283,000. In the spring of 1921 Mr. Moore was appointed a member of the Taxation Committee of the local Chamber of Commerce, a committee formed to consider the effect of taxation on retail business.

During the World War the excess profits tax had been put into effect to increase the revenue of the Government. All businesses were required to make a return to the Government, showing the total amount of income, legitimate expenses, and net profit, and each firm was required to pay a substantial portion of its profits as a tax. This method of taxation put a heavy burden on business generally, since a corporation might have a surplus of several thousand dollars and still be hard

pressed to pay its current bills. Although a surplus represents past profits, it is not necessarily in the form of cash, since it is necessary, if a company is to expand, that a part of the profits, at least, be reinvested in new equipment and larger stocks. Moreover, merchants opposed to it asserted that the excess profits tax was adopted only to meet war conditions and that it failed to yield an adequate revenue in the period of depression which followed. They also argued that it taxed successful businesses only and let the inefficient escape.

The luxury tax, which taxed all articles classified as luxuries, was also a war measure. One objection to this tax, on the part of the retailer, was that the return must be entered separately on each sales slip and totaled with the cost of the merchandise; hence, three entries were necessary where one had been sufficient before, and salespeople were not able to wait on as many customers as previously. The annoyance did not end here, however, for luxury tax receipts must be tabulated and separate accounts kept in the office. One department store estimated that it cost over $30,000 to collect the tax alone. This added cost of doing business was reflected in higher prices.

One of the remedies proposed to overcome the difficulties resulting from this form of taxation was a "last manufacturer's sales tax" which would place a tax on the sale of all merchandise when it left the last factory in its completed form ready for delivery to the consumer. One of the difficulties in the administration of such a tax, however, was the fact that sometimes it would be difficult to determine who was the last manufacturer. For example, a mill, turning out unbleached cotton, might sell its product to a number of buyers who in turn might sell the product to other factories or to stores. Consequently, when the unbleached cotton was sold at the mill it would not be known whether it was to be sold to the ultimate consumers as yard goods or sold to another factory to be made into overalls. It was also pointed out that the expense of collecting such a tax would be large and that it would be difficult to keep a check on evasions of the law.

Another substitute proposed was the "turnover tax," which placed a 1% tax on each sale. In order to exempt the majority of farmers and other small business men, it was proposed that this tax should apply only on businesses having an annual sales

volume of over $5,000. The chief objection to this plan was that on some articles the tax would pyramid. For example, a woman's coat might require seven or eight transactions between the clipping of the wool and the selling of the finished garment. On each of these there would be levied a 1% tax, so that the total tax on the garment would be considerably more than 1%.

Another objection to the turnover tax was the big advantage it gave to an intergraded corporation. For example, if a steel company owned its coal mines, its iron ore mines, its blast furnaces, and produced a finished steel product, its only sale would be of the finished article; consequently, there would be only 1% tax on its product. On the other hand, a small company, which purchased its coal, iron ore, limestone, and other supplies necessary for the manufacture of steel, would find that it had to pay a higher price for materials in order to cover the burden of taxation and that it could not compete favorably with a larger corporation. Likewise, a large shoe manufacturing company, which operated its own retail stores, would have only 1% tax on the sale of its product, while a unit shoe store, purchasing shoes from manufacturers and wholesalers, might not be able to meet the competition of this company because of the additional tax.

Furthermore, there are a number of products on which there is a high rate of profit, while on others the percentage of profit is low. For example, a jeweler might sell a diamond worth $3,000 on which his percentage of profit was fairly large and not be greatly affected by a 1% tax on the sale. On the other hand, staple groceries often show a small margin of profit. For example, sugar might pass through the hands of the manufacturer and wholesaler before it reached the retailer. It has been stated that the average grocer makes a profit of only 1% on this product, yet he would be taxed an additional 1% when he sold it to the consumer and would have to increase his price sufficiently to take care of the other taxes already paid by the manufacturer and wholesaler.

Still another proposal was the retail sales tax, which would place a tax on the sales of a product to the purchaser. The chief objection to this tax was that the burden would be shifted to the ultimate consumer, and, consequently, not distributed according to the ability to pay. Hence, a poor family would

have to pay a tax on bread and the other necessities of life, even though it might already be depending upon charity.

Question

Which tax, if any, should Mr. Moore have favored in the fall of 1921?

C. PRICE POLICY

General Administration 46

Porter Department Store—Mark-Up Policy

A cotton manufacturer noticed, in passing the display windows of the Porter Department Store, that ginghams which his mill manufactured were priced at two and a half times what they were sold for at the mill. Knowing the cotton buyer for the Porter store, this manufacturer went to the department where the ginghams were on sale and requested an explanation as to why his goods were priced so high. The buyer told him that these particular ginghams represented a style line that would probably be closed out at the end of the season at a loss. Consequently, in order to make this merchandise show a profit it was given a higher rate of mark-up at the beginning of the season.

The cotton manufacturer was still dissatisfied and asked to see the head of the firm. He told this executive that by marking the ginghams at two and a half times what they cost, the store was slowing up the sale of this product, and, as he expressed it, "clogging up the channels of distribution." He also stated that as long as the Porter Department Store continued its present method of marking up merchandise, it could not buy any more of the ginghams made by his mill.

Up to this time the Porter Department Store had had no definite mark-up policy. It was generally understood among the buyers and merchandise men that they were to charge what

the traffic would bear, but at the same time build up a large sales volume for the store. The criticism of the cotton manufacturer, however, opened up the question of a mark-up. Upon talking this matter over with his buyers, the head of the firm found that they did not all agree.

One group stated that the Porter Department Store ought to charge the same price as competitors, that unless the firm met competitors' prices its customers would go elsewhere and the sales would fall off. This group believed in carefully shopping all the stores in the town and in marking merchandise to the price charged by the others.

Several buyers were guided by the theory that the merchandise should be given a flat percentage of mark-up on cost. For example, articles costing $2.25 per dozen they believed should be marked up to 25 cents apiece; goods costing $4.50 a dozen should sell for 50 cents each, and $9 per dozen merchandise for $1 apiece. If the merchandise failed to sell at these prices the line should be discontinued.

Another policy which was advocated was that the mark-up should be sufficient to cover all expenses and a reasonable amount of profit. This would insure that no merchandise would be sold at a loss. In case competitors cut the price below this figure, so that the store could no longer make a profit on these goods, the merchandise, with the exception of style lines, should be taken off the shelves and placed in the reserve stockroom until such time as competitors' prices permitted the making of a fair profit. In case other stores continued to sell these goods at a loss, the line should be discontinued.

Another group of buyers asserted that custom usually dictated the price at which any merchandise could be sold. They cited, as an example, the case of men's collars that for a number of years had been sold for 15 cents each, or two for a quarter. This custom became so firmly established that even when the cost of manufacture increased and the collars could no longer be sold at this price at a profit, customers still demanded the old price and became indignant when it was raised. Likewise, it was customary to sell certain grades of silk at 95 cents a yard, and these buyers stated that it would be practically impossible to sell this merchandise at a higher price, even though it was necessary to do so to keep from showing a loss.

Another group defended the practice of this store, contending that merchandise should be priced at whatever the traffic would bear. They said that it was useless to mark up the price of an article to a figure that customers would not pay. Consequently, certain articles are sometimes carried at a loss. On the other hand, if a customer is willing to pay a high price on merchandise which would yield the store a rate of profit greater than it normally received, it would be foolish not to take advantage of the situation and charge whatever customers were willing to pay.

Still another theory was that all merchandise should be priced according to the cost of replacement. For example, if an article cost 37 cents when the store bought it two months before, but the replacement cost was then 51 cents, and the store could not duplicate that merchandise except at a higher figure, its mark-up should be based accordingly. This group held that it was necessary to seize the opportunity of increasing prices on a rising market in order to build up a surplus which would take care of the store's losses on the falling market which must follow.

The controller pointed out that the highest price was not necessarily the most profitable. To support his statement he cited an example in the millinery department where a few high-grade hats had been given a high rate of mark-up. The turnover of this line of millinery, however, was so slow that the profit derived from its sale was comparatively small. He pointed out that the bulk of the profit shown by this department was made from the sale of a large number of medium-priced hats, which had a comparatively low rate of mark-up.

Question

On what basis should the Porter Department Store mark up its merchandise?

General Administration 47

The Page Specialty Store—Rules for Taking Mark-Downs

The question of when to take mark-downs is considered by the executive of the Page Specialty Store to be one of its most difficult operating problems. The members of the firm think that a large amount of money is lost each year through taking mark-downs for insufficient reasons. They are also convinced that another main cause for loss is the failure to take mark-downs in time.

The vice-president asserts that the firm has operated long enough on its policy of allowing buyers to take mark-downs indiscriminately. He has, therefore, drawn up a list of reasons for which mark-downs will be allowed. These reasons are briefly as follows:

1. Late delivery.
2. To meet competition.
3. Soiled or damaged.
4. For advertising.
5. Bill incorrectly retailed.
6. To fill in line prices.
7. Overstocked.
8. Transfer to basement.
9. Automatically reduced.
10. Undesirable sizes.
11. Undesirable colors.
12. Undesirable material.
13. Undesirable type.
14. Too high priced.

He also listed three reasons for which mark-ups are allowed:

1. Bill incorrectly retailed.
2. Too low priced.
3. Increased cost.

In order that no mark-downs should be allowed except for the reasons listed above, the vice-president proposed that each mark-down should be entered in detail on an authorization sheet, on which the reason for their desirability would also be entered. The proposed mark-down must be approved by the buyer and division manager before it was entered in the mark-down book. This book would have columns for the date, description of the merchandise, model number, where it was purchased, cost, original retail price, present retail price, the mark-down price, the difference, the quantity, total amount, cause for mark-down, and for the approvals of the buyer, the floor superintendent, and the merchandise office.

After the mark-down had been entered in the mark-down book, the floor superintendent would be held responsible for having the price tickets changed accordingly. He would also check the mark-downs entered for correctness as to quantity and extensions, and for the entry of the original-cost figures and the buying source. The floor superintendent also would be made responsible for seeing that no marked-down merchandise was put on sale except in accordance with the above routine.

The Page store carries a large assortment of merchandise at different price levels. It is proposed that in taking mark-downs merchandise should be reduced to a line price whenever practicable. Thus a high-priced dress would be marked down sufficiently to include it in the next lower group. It was thought that this plan would draw trade to the prices at which the stock assortment was best and might thereby increase the sale of other goods in that class that had not been marked down.

In the vice-president's opinion, the mark-down book should be of great value to buyers. He recommended that the buyers should study this book carefully before making purchases, so that purchases from manufacturers whose goods were not profitable could be discontinued or reduced in quantity. He pointed out that constant mark-downs, due to competition, indicated that the firm which sold the goods to the Page Specialty Store had been selling to too many competitors to make it profitable for the store to deal further with this manufacturer, or that this manufacturer had been selling merchandise to competitors at a lower price than it had sold goods of the same quality to the Page store. He also said that repeated mark-downs on soiled or damaged merchandise indicated the necessity for better protection of goods and the exercise of greater care in their handling.

The merchandise manager objected to these mark-down rules; because of the differences existing in various departments, he did not think they would work. He pointed out that a great deal depended upon the department involved, the kind of merchandise to be marked down, the buyer's judgment, whether it were the beginning or near the end of the season, whether or not the goods had been poorly bought, and the human equation of both salespeople and customers. In support of his argument he cited an example of a buyer who had recently purchased four women's coats in a style that had been very popular in New York.

The coats failed to sell, but the buyer continued to carry these garments in stock in the hope that someone would buy them. The merchandise manager said that in his opinion these garments should have been marked down the second or third day, when it was found that there was no ready demand for them. On the other hand, in the hosiery department, women's silk stockings, sizes 11 and 11½, might not be sold in three or even six weeks; yet these sizes must be carried in order to have a full line and it would not be wise to mark down this merchandise, since it was not a style line. In each of these cases the merchandise manager said that good judgment, based on past experience and not arbitrary rules, must be followed.

Question

Would it be advisable for the Page Specialty Store to adopt the mark-down rules proposed?

General Administration 48

Townsend Drug Company—Price Policy

The organization of a chain of drug stores is contemplated by the Townsend Drug Company. This company plans to purchase seven stores already in operation and to add to this number as soon as additional capital is available for expansion. A central warehouse is to be secured, and experienced managers are to be hired to operate the store.

The problem under consideration by the directors at the present time is the price policy of the company. They expect to have the company manufacture its own brands of patent medicines and other preparations, in order to secure the profits of the manufacturer and wholesaler as well as of the retailer. The directors are divided, however, on whether they should reduce prices on the company's own brands in order to increase their sales, or whether they should cut prices on nationally advertised brands in order to draw trade.

Grocery chains have often followed the policy of reducing prices on nationally advertised goods as a special inducement to get people to trade with their stores. They have usually made up their loss from these lines by the profit secured from the sales of their own products. Some drug chains have also followed this policy.

On the other hand, the United Cigar Stores have adopted the practice of cutting the price on their own products. Companies which follow this policy usually do so with the idea of increasing the sales volume of their own brands, although they may secure a smaller percentage of profit. By maintaining the standard price of nationally advertised lines, these firms also make a profit on this merchandise. Some drug companies have also followed this practice.

Question

Which price policy would it be advisable for the Townsend Drug Company to adopt?

General Administration 49

Porter, Ogden & Company—Mark-Up on Silverware

The Porter, Ogden & Company jewelry store in a large eastern city has a complete sterling silver department, together with the customary assortment of diamonds, gold jewelry, clocks, watches, filled and plated jewelry, antiques, novelties, art goods, stationery, cut glass, and miscellaneous articles commonly found in jewelry stores.

During the period from 1914 to 1920 the cost of selling rose rapidly in many departments. This was especially true in the silver department. The amount of free engraving that has always been considered necessary in order to sell silver became a heavy burden with the repeated increases in wages which hap to be granted to the men doing this work. At the same time

the cost of the bags and cases that have to be furnished with sterling silver goods mounted steadily. Owing to the increased rent expense and to the comparatively large space that silver requires for display, the overhead expense of this department was considerably augmented. Furthermore, because of competition among manufacturers of sterling-silver goods, there has been an increasingly larger number of sterling-silver patterns placed on the market. Since all jewelry stores felt obliged to offer their customers a wide range of selection, Porter, Ogden & Company found that at the beginning of 1920 they were carrying fully 50% more stock in their silver department than they had been carrying in 1914.

When any discussions have arisen, Mr. A. J. Porter, the senior member of the firm, has always laid great emphasis on the point that the jewelry business is a luxury trade. He has insisted that quality, selection, and service rather than price are the points in which customers are most interested. He has frequently said that to cut all prices in half would result in very little increase in volume of business in jewelry stores. His theory of doing business is to give the customer a slightly better grade than his competitors give, even if this necessitates retail prices considerably higher than those of his competitors.

Under the circumstances existing in 1920, Porter, Ogden & Company believed that in order to have the silver department show any profit at all, it was necessary to have a mark-up of at least 42% on sales, and in many cases Mr. Porter thought that the mark-up should be considerably higher.

Early in 1920, the silver manufacturers, from whom Porter, Ogden & Company had been making the bulk of their purchases in that line, opened two retail stores in which sterling-silver goods were sold at a mark-up of approximately $33\frac{1}{3}\%$ on sales.

The Harvard Bureau of Business Research, in their bulletin published in 1920, showed that the common figure for total expense in 1919, in jewelry stores reporting to it, was 32.3% of net sales. Porter, Ogden & Company had a figure of 34.6% for total expense in 1919. The office is unable to determine exactly what were the expenses of the silver department, because the only overhead expense which has prorated to it was rent. The firm is convinced, however, that the total expense figure

for the silver department was considerably in excess of the common figure for total expense in all stores shown by the Bureau of Business Research.

Question

What price policy should Porter, Ogden & Company adopt for their sterling silver department?

General Administration 50

The Timothy Moore Company—Mark-Ups on Style Lines

The Timothy Moore Company has, for the last six years, done a business of slightly over $100,000 in a middle-class residential district of Massachusetts. Three-fourths of its business is in women's shoes; two-thirds in stylish lines. Many of the styles carried in women's shoes are extreme. The mark-up on stylish shoes is high, sometimes very high, and Mr. Moore believes that this is where the real profit of the store comes from; yet he has always carried a full line of staples, the mark-up on which is small, not only in order to satisfy customers who are not interested in the ultra-fashionable shoes, but also to protect himself in case the styles that he has purchased do not turn out to be popular. Occasionally, Mr. Moore has suffered severe loss as the result of a sudden change in styles. Whenever this has happened, it has been necessary to sell at big reductions. Mr. Moore, however, regards this as part of the game, which he believes, is played in the same way by all merchants who handle style goods.

Recently, a salesman, representing a large Boston jobber with whom Mr. Moore has been doing business for years, said to him:

You know, I have been thinking over the question of distributing fashionable lines of shoes, and I have come to the conclusion that you and every other retailer in the country of whom I have heard are

wrong. You all take your short mark-up on the staples and your big mark-up on the stylish lines. Every now and then you get caught with a lot of expensive stuff that has lost the favor of the people, and then you can't give it away. Now what you ought to do is sell all your stylish goods at a small profit. You would undersell every one of your competitors, and move the shoes off your shelves in record time. In the end you will make more, I believe, in spite of your closer mark-up, because there would be practically no loss on dead styles.

Mr. Moore replied:

Well, that sounds all right, but I guess there must be some reason why every shoe retailer, as far as I know, figures on making a big profit on his fashionable footwear. I, for one, could not make this business pay if I did not charge as much as I can for these shoes; that is where I make my money.

The answer was:

I don't doubt it, but are you sure that you wouldn't make more if you sold your fancy stuff at low figures, sold more of it, and turned your stock more quickly? Then don't forget the loss you have to take every now and then when you have bought styles to which the people won't respond. Why not take three-fourths of your average loss on dead styles and deduct it from your average mark-up on new styles and see what happens? I would try it out if I were you. You will be bound to get more people into the store anyway, and I feel sure that you wouldn't be caught with a lot of unsalable merchandise.

Conditions of keen competition prevail in the suburb where the Timothy Moore Company is located. Within a radius of three streets there are six other shoe stores, one of which is a branch of a large Brockton manufacturer. Another of the competing stores is partly owned by a shoe manufacturer. Among the rest are several exclusive agencies of well-known brands. The Timothy Moore Company is competing against eight or ten nationally known lines. All its shoes are sold under the Timothy Moore brand, though it handles two makes that are widely advertised by the manufacturers.

Question

Should Mr. Moore sell style lines at a low mark-up?

General Administration 51

Gulick Jewelry Store—Mark-Down Policy

The Gulick Jewelry Store is one of the most exclusive shops in the city of over half a million population in which it is located. Prices charged are usually considered to be a little higher than those found in other stores, but customers feel certain they are getting the best merchandise. Consequently, this firm, which is also noted for its effective window displays and attractive advertisements, has a large clientele among the more well-to-do people of the city.

In going over his stocks preparatory to buying new merchandise, the proprietor has found several lines of silverware which have been discontinued. All of these articles are of good design and workmanship. In order to make room for new merchandise, however, the proprietor is anxious to dispose of these lines, particularly since he has a high overhead and cannot afford to carry a large stock of slow-moving merchandise.

In many stores the solution of this difficulty would be to reduce prices on the discontinued lines and to feature this fact in their newspaper advertising, but this shop has a reputation for exclusiveness and is patronized largely by people to whom the artistic appeal is even greater than the appeal of price. Customers frequently buy silverware at this store because they have the satisfaction of knowing that the lines of merchandise are limited, and that not everyone in the city will be able to secure the same design.

The proprietor is, therefore, in a quandary as to what he should do. If he marks down his discontinued lines he will cheapen the silverware already purchased by his customers. If he advertises these mark-downs, he might also injure the reputation of his shop for exclusiveness, as well as endanger the good will of his clientele. On the other hand, it is necessary that he dispose of these discontinued lines to make room for new merchandise and to freshen up his stock.

Question

By what means should the proprietor of the Gulick Jewelry Store dispose of his discontinued lines of merchandise?

General Administration 52

Marco Di Pesa, Violin Dealer—Pricing Valuable Merchandise

Marco Di Pesa, one of the large violin dealers in Europe, conducts a business which has come down from father to son in unbroken succession from the middle of the 16th century. The dealer owns the building in which his store is located. The store is luxuriously fitted out, in keeping with the instruments there collected. The total value of these instruments is over $800,000. The selling prices of rare old masters vary from $1,500 to over $15,000. Rare bows, beautifully worked violin cases, and the finest supplies are likewise carried, in addition to serviceable orchestral instruments, the prices of which range from $150 to $500. There is also a large repair department, where, because of the delicate work done on valuable instruments, high prices are charged.

Customers entering the store in search of supplies or comparatively inexpensive orchestral instruments are waited on by clerks who quote prices and make sales in the usual way. A prospective purchaser of a rare old violin, however, is taken in hand by the head of the company himself, who shows him into a beautifully appointed salon specially constructed with a view to obtaining the best acoustic effects. No violins are kept in this room. The prospect explains what he is after, and the dealer brings out from an adjoining room, hidden by draperies, one or two instruments. The prospective customer then either tries them himself or requests the exhibitor to play them. In case the customer asks how much the instrument costs, it is the invariable policy of the dealer to evade the question. It is, furthermore, the policy of the dealer to make every effort to find out the extent of his prospect's buying power. The dealer discusses instruments only with musicians or wealthy amateurs, a circumstance which follows as a matter of course from the nature of the business. Not until the prospective purchaser has made up his mind that he wants to buy the violin he is examining, does the dealer quote a price. That price is final. If the customer cannot afford to pay it, a less expensive violin is shown him, and the process is repeated. Nobody is shown into the special room for the exhibition of old masters, if the management can avoid it, unless that person really wants to buy a violin and has the money to pay for it.

A large majority of violin dealers, both in the United States and abroad, conduct their business as do many small continental shops; no price is ever quotee that is not sucject to haggling.

Questions

1. To what extent would the methods of the violin dealer be applicable to a high-class art store on Fifth Avenue?
2. To a high-class furniture store?
3. To the furniture, rugs, and picture departments of a department store large enough to carry some very high-priced goods?

General Administration 53

Franklin McDonald & Company—Odd-Figure Prices

Franklin McDonald & Company have a department store in the shopping district of a large city, which does a business of from $12,000,000 to $15,000,000 a year. In the fall of 1920 and the spring season of 1921, the volume of sales in dollars was considerably less than in the corresponding periods of the previous year. The management, however, thought that the decline reflected, almost entirely, the decline in prices. It did not believe that there was an actual falling off in business. By the middle of the fall season of 1921, business had picked up to such an extent as to appear probable that the year's sales, in dollars, would equal the record of 1919.

During the years following 1915, when Mr. W. K. Patterson came to the firm as assistant merchandise manager, odd-figure prices had been used freely throughout the store. The store's clientele was largely made up of people easily reached by a price appeal, and it was Mr. Patterson's experience that to these people a price of $3.98 looked like a mark-down. Customers were inclined to think, according to his theory, that this was only slightly over $3 or $3.50; and they would buy at this price much more readily than they would at $4. The merchandise manager,

Mr. McDonald, agreed with Mr. Patterson that the odd-figure price should be used, but he disagreed as to the purpose. Mr. McDonald doubted whether the \$3.98 price looked much smaller than the \$4 price. It seemed to him, however, that the odd-figure price had a great advantage because it necessitated making change and held the customer in the department waiting for the change to come back through the tube from the cashier. During these few moments the salesperson could show some other goods or make a few incidental remarks which might lead to an additional sale. Again, according to Mr. McDonald, there was less possibility of theft by the salesperson if change had to be made. He held that if the sale was an even \$4 or \$5, and the customer gave the correct change, as she would frequently do, the salesperson could tear up the sales slip, pocket the money, and leave no one the wiser. The odd-figure price, by forcing the salesperson to make change, prevented such dishonesty.

In the spring of 1918, the McDonald store established a men's clothing department and placed it adjacent to its existing men's furnishings and men's shoe departments. The odd-figure prices had always been used to a certain extent in the men's furnishings as they had in the rest of the store. Now, however, Mr. Patterson decided that goods in the three men's departments should not be marked at odd figures. He argued that the store wished to do business with men in these departments, and that men do not hunt for bargains and hence could not be appealed to by the odd-figure prices as women were. He justified changing the method of pricing in the men's furnishings department by pointing out that previous to 1918 the men's furnishings department had sold almost exclusively to women. Now, however, the appeal must be changed because it was to be directed to men.

Questions

1. Should odd-figure prices have been used in the men's departments after the change?

2. Should odd-figure prices have been used in the store as a whole?

General Administration 54

Boynton Specialty Shop and the Fairchild Store—Single-Price Policy

The Boynton Specialty Shop caters to a well-to-do class of trade in women's wearing apparel in one of the largest cities in the country. It is located on one of the most fashionable streets of the shopping district and is noted for its excellent window displays. All the floors, except the first, are covered with soft green carpets; and dresses, skirts, suits, and coats are hung in attractive cases along the walls.

The Boynton Specialty Shop maintains stocks of exclusive styles and often carries only a single model of one style. It is considered a high-price store, but it has a large patronage because of the high quality of its merchandise. Prices are never reduced until the end of the season, at which time old stocks are cleaned out to make way for new merchandise. With the single exception of the fur sale in August, these two clearance sales are the only times at which merchandise is marked down.

Next door to the Boynton Specialty Shop is the Fairchild Store. This latter store is the larger of the two and appeals to the same class of customers, dealing only in high-grade merchandise.

The Fairchild Store is rather unique, however, in that it is always running a special sale on at least one class of merchandise which it carries. In order to stage these sales, the store purchases job lots of fine fur coats, women's suits, coats, waists, hosiery, underwear, lingerie, in addition to the regular lines which it always carries. In disposing of these lines by special sale, it is the policy of the store to secure as quick a turnover as possible, and the merchandise is marked down rapidly if it is not sold within a few days after its arrival.

Frequently, when a customer does not appear to be interested in the merchandise or thinks that the price is too high, the salesperson will make an attractive price concession in order to induce the customer to buy. For example, a woman was interested in an attractive fur coat which was exactly her size, but she thought that $540 was a higher price than she could afford to pay. After consulting with the department head, the salesperson finally sold the coat to this woman for $480.

This policy, which practically amounts to "marking down the merchandise while you wait," has been in effect for several years because it appears to the management that it speeds up the stock-turn and reduces selling cost. If a high-priced salesperson has spent two hours in displaying a fur coat to a customer, the salesperson's time is practically wasted if the woman does not take the garment. In so many instances customers spend so much time in looking at high-price garments instead of buying them that the store wishes to close a sale wherever possible. Accordingly, rather than stick to a one-price policy, the Fairchild Store has adopted the method of making price concessions to many of its customers in order to encourage them to buy the merchandise.

Question

What are the advantages and disadvantages of the price policies of these two stores?

General Administration 55

Nolan Department Store, Howlett Department Store, Huntington Shirt Shop—Use of Price Tags for Customers

The Nolan Department Store has a reputation for handling only the highest quality merchandise. In its window displays price tags and signs are never shown. On the merchandise displayed in show cases inside the store price tags are never conspicuous and are marked only for the convenience of the salespeople in selling the goods. This policy has been adopted because the managers of the store are convinced that in dealing with a well-to-do clientele the price of an article is of minor importance as long as the quality and reliability of the merchandise is assured.

The Howlett Department Store, located across the street, is known as a popularly priced store. It frequently advertises

that its prices are the lowest of any store in the city. Large price tags are used, not only in window displays, but on the merchandise for sale throughout the store. These tags are placed on the merchandise for the convenience of customers who wish to shop about the city and compare values. As the manager explains, "My store has always stood for reliable merchandise at the cheapest possible price. We have not permitted competitors to undersell us. If we find that an article carried in one of our departments is sold for less at any other store in the city, it is our aim to meet our competitor's price. People who trade with us possess only modest means and like to shop around in order to pay no more than is necessary. They are interested in just the sort of merchandise we are in a position to offer. Therefore, we feature price tags on all our merchandise whether it is in our display windows or on sale in the different departments in the store. We believe that in our case price tags constitute one of our best advertising mediums."

Department stores in the suburbs often have their merchandise tagged with the price in order to impress upon customers the value of the merchandise and to enable them to compare prices in shopping. Since these small department stores are sometimes able to undersell the larger stores because they operate upon a lower rental and give no expensive services, a big advantage is gained if the merchandise is tagged in such a manner that customers can compare their values with the prices asked for the same class of merchandise in the city.

The Huntington Shirt Shop is located in a medium- and low-price retail district in the same city. It is trying to appeal to a class of trade much like that of the Howlett Store, but it also carries a stock of more expensive furnishings. Price tags do not appear in its windows, although similar stores in the immediate neighborhood feature tagged merchandise. The proprietor, Mr. Kent, does not want to put a hat conspicuously priced at $10 in the store window for fear of frightening away a man who is planning to spend from $3 to $5. At the same time he does not like the idea of filling his window with cheap merchandise, but is anxious to put his finest articles on display in order to make as good an appearance as possible. There is also the question of meeting the competition of nearby haberdashers who, in order to give the impression that excellent

values are offered, label their merchandise, "$4 marked down to $2.50," when $2.50 is really the regular price.

Questions

1. Should the Huntington Shirt Shop use price tags?
2. What are the factors which a department store should consider in determining whether or not it should use price tags on its merchandise?

General Administration 56

The Crowell Company—Price Comparison Policy

The Crowell Department Store in a large city of the Middle West has for a number of years followed the policy of using no price comparisons in its advertising. The merchandise handled by this store has a good reputation for quality, and the store is very well thought of by the public.

In the latter part of 1920 prices were lowered from 20% to 30% in order to reduce the excessive inventory. Similar price reductions were made by most of the other department stores in the city. The other stores, without exception, based their advertising on price appeal and used price comparisons freely. After the first three or four days of the price reduction sales, it was evident that the Crowell store was not getting its share of the business, although none of the stores was getting a large enough volume of trade to indicate that the public had really resumed buying.

At this time the buyer for women's suits sent the following memorandum to the merchandise manager:

I believe that at this time the management should seriously consider some modification of the Crowell Company's policy of using no price comparisons in its advertising. There has scarcely ever been a time when the public has been watching prices so closely. The Merchandise Comparison Bureau reports that our principal competitor, The Emporium, is selling women's suits at the same price as we are, and the

quality is inferior, yet they are going like "hot cakes" over there, and I think it is because their advertising says, "Prices going back to normalcy. Women's suits were \$85, now \$49.50." Of course, I think that is a crude method of doing it. I suggest that, instead of using the conventional "\$35 marked down from \$55," etc., we run somewhere in our advertising every day a small box under the caption, "Beating Back" or "On the Way Down," or something of that sort, and then give a list of seven or eight articles of merchandise with the prices for which they sold a year ago and the prices for which they are selling today.

(Signed) L. F. Jones

The merchandise manager took this matter up with the heads of the firm. They did not want to see the store policy in this regard changed, but nevertheless they felt that reduction of inventory was absolutely necessary and that possibly it was a time when traditional policies would have to go by the board. They hesitated to make a decision, however, and finally put the responsibility on the merchandise manager. He sent the memorandum of the buyer for women's suits to the publicity director and asked for his recommendations. The publicity director submitted the following memorandum:

While I realize that the present situation is critical and in many ways unique, I have always been opposed to the use of price comparisons in advertising, and am reluctant to make a change. You may remember, furthermore, that three years ago when we discontinued our furniture department we tried to unload by advertising widely, "Our entire stock of furniture 30% off regular prices," and that it did not go with the public worth a cent. My views on this subject are pretty well summed up by one of Weinstock-Lubin's recent ads which I enclose.

(Signed) R. B. Davis

The enclosed advertisement of Weinstock-Lubin & Company was an announcement reading as follows:

When comparisons in price represent the exact truth, we see nothing wrong in their use. But an intensive investigation covering many years has convinced us that the temptation to exaggerate alleged value is so great that protection of the customer demands the abolition of the comparative price.

For many years, we permitted the use of comparative prices, carefully censoring every such quotation before giving approval. But in spite of careful censoring, we found it impossible to avoid exaggeration. Therefore, about four years ago, we forbade our advertising office to use comparative prices.

But there was also another reason for their elimination. We found that even when we did employ truthful comparative prices, our advertisements looked weak when placed alongside the exaggerated claims of reductions and special values of other houses. As we could not compete in lying, we were beaten from the field.

We thought it better to follow the example of the little Eastside storekeeper (now one of New York's leading merchants) who, when his shop was surrounded by other stores bearing grossly exaggerated signs, ran across the front of his store a large sign reading:

"Men's Suits—Real Value $20—Our Price $20"

Question

What would have been your decision if you had been the merchandise manager?

General Administration 57

The Emmons Department Store—Trading Stamps

In appealing to the working people of a large city, most of whom are foreign-born, the Emmons Department Store carries a low-price grade of merchandise. In its advertisements it claims to have the lowest prices in the city. Much of the women's wearing apparel which it carries consists of imitations of the more expensive models of the latest style. Although the sales volume of this store has increased from year to year, it has not increased in proportion to the population to which this store attempts to cater. The managers of the store are therefore anxious to increase its sales volume.

Recently the managers of the Emmons Department Store were approached by a salesman for a trading-stamp company. This agent told the managers of the many satisfied users of trading stamps. He explained that his company advertised in street cars, newspapers, and magazines read in that locality and that by means of the advertising of the trading-stamp company, the sales of the Emmons store could be rapidly increased.

Under the proposed plan, trading stamps of the value of 2% of each purchase were to be given to all customers who asked for them. These stamps were to be purchased from the trading-stamp company at their face value.

Upon investigation the managers found that the Irwin Company, operating a department store of about the same size as that of the Emmons Department Store, was using trading stamps. This store gave trading stamps only to customers who asked for them. If a customer asked for stamps, the salesgirl gave her a check which she had to present at the central desk in order to procure her stamps. The manager of this store had found that their sales increased immediately after the trading-stamp system had been installed. Since Thursday was a dull period in the sales week they had adopted the policy of giving double stamps on that day.

On the other hand, the managers of the Emmons Department Store found that the merchants in a neighboring state were so opposed to the use of trading stamps that they had finally succeeded in getting a law passed which made it illegal to use trading stamps inside the state. These merchants asserted that their average profits ran from 5% to 6%, and that if they were to give their customers 2% of their total sales in trading stamps, they would have to add this additional amount to their mark-up or else cut down their profits. These merchants considered that cutting down profits in order to use trading stamps would mean operating their stores to make a profit for an outside concern. Since it was asserted that only 20% to 30% of the stamps were ever redeemed by the trading-stamp company, they thought that the use of trading stamps was an imposition on the store and its customers.

Question

Should the managers of the Emmons Department Store have adopted the policy of giving trading stamps to their customers?

General Administration 58

J. J. Flannigan & Company—Variety of Stock and Price Range

The store of J. J. Flannigan & Company, in one of the New Jersey suburbs of New York City, does a business chiefly among the factory employees living in the city and nearby communities. Its sales are largely clothing and furnishings for women, misses, and children, dry goods, notions, and allied lines. The store carries some men's clothing and furnishings, usually the coarser kinds which can be worn to work; these articles are purchased almost entirely by women.

The store has three floors, with a 75-foot frontage on the street and a depth of 100 feet. All the main floor, all the second floor and half the third floor are devoted to selling. The rear of the third floor is used for stockrooms and offices. The store has 30 departments, and in 1920 its sales were $1,273,062.

In the store, women's gloves are carried in a separate department placed adjacent to the hosiery. In the summer of 1921 this department was carrying numbers at the following prices. The prices, at which sales constituted 5% of the total sales of the department, or over, are indicated by the percentage figures given at the right of the price figure.

$1.00	25%
1.25	
1.50	
1.75	
1.95	20%
2.00	
2.25	
2.50	18%
2.75	
3.00	
3.50	10%
3.75	
4.00	
4.25	8%
4.50	

The buyer of the glove department is occasionally disturbed by customers who ask for styles of gloves they have seen in the

larger stores in Newark or New York, but which he does not carry. Other customers, as they look over his lines, frequently make remarks about the small variety offered.

Questions

1. Should the buyer add to or reduce the number of prices at which gloves are carried?
2. If changes are desirable, where should they be made?

General Administration 59

Brenton Shoe Stores, Inc.—Stamping Manufacturer's Cost on Merchandise

The Brenton Shoe Stores, Inc., has a chain of 11 retail shoe stores in 3 of the larger cities in northeastern Ohio. Although the stores carry men's, women's, and children's shoes, the major portion of their sales is made up of men's shoes of medium grade. They carry no cheap shoes and only a few that might be placed in the high-grade category. The women's shoes stocked are entirely of medium and lower-medium grades.

The Brenton stores purchase from both manufacturers and jobbers, but principally from manufacturers. About 40% of the shoes which they sell are retailed under the manufacturer's brand; those remaining, which include the higher-medium and high-grade shoes, are sold under a Brenton trade-mark.

In August, 1919, Senator Jones of Washington introduced in the United States Senate the following bill:

A Bill

Relating to manufactured articles intended for interstate commerce, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the manufacturer of any article produced after the passage of the Act, and intended to be put in interstate commerce, shall plainly mark upon or attach to such article the cost thereof.

2. That every retailer of any manufactured article carried in interstate commerce after the passage of the Act shall put upon or attach to such article before sold to his customers in plain figures the cost of such article to him.

3. That the Attorney General is authorized and directed to make such rules and regulations as he may deem necessary to carry out the provisions of this Act.

4. That any violation of any of the provisions of this Act shall be a misdemeanor and shall be punished by a fine of not more than $1,000 or by imprisonment for not more than one year, or by both such fine and imprisonment, in the discretion of the court.

Question

What action should the Brenton Shoe Stores, Inc., take in an attempt either to secure or to prevent the enactment of this bill?

General Administration 60

R. H. Macy and Company—Price Maintenance

The firm of R. H. Macy and Company, New York, has a large store at Broadway and 34th Street and delivery branches and substations so scattered that it can cover all the metropolitan district and reach far out into what might be called the suburban district. For about half a century the Macy Company has maintained the policy of underselling all competitors in the city. It features, in its advertisements and in its sales talks, the fact that it undertakes to sell merchandise for at least 6% less than the price at which merchandise of the same quality can be purchased elsewhere in the city. It bases its claims upon the unique policy pursued since its organization, that of buying for cash and selling for cash and extending no credit—to the consequent reduction of operating cost.

In carrying out its policy of underselling all competitors, the Macy Company has not excepted patented, copyrighted and

trade-marked or branded articles, nor has it acquiesced in the desire of manufacturers who have attempted to name the price at which retailers might sell their products to consumers.

This policy of unwillingness to maintain the retail price which manufacturers or other producers attempted to dictate brought the Macy Company into legal trouble with the producers. About 1898 the book publishers of the country, and especially those who issued the ephemeral novels, presumably because of pressure from the smaller and less efficient booksellers, combined and agreed that they would no longer sell to Macy unless the latter agreed to resell their products at the list prices fixed by the publishers. This was probably done to determine their rights under the copyright law. Macy's contended that, in the absence of contract to the contrary, they had the right to dispose of merchandise purchased and paid for, at any price they saw fit. In 1913 one of these suits was definitely settled by the Supreme Court of the United States in its decision in the case of Straus and Straus, composing the firm of R. H. Macy and Company, vs. the American Publishers Association. This decision stated that the agreements among the publishers comprising the American Publishers Association went beyond fair and legal means to protect trade and prices and practically prohibited the parties thereto from selling to those dealers whom the association condemned. It was held that the agreements affected commerce between the states, were manifestly illegal under the Sherman Act, and were not justified as to copyrighted books under any protection afforded by the copyright act. The Court went on to say that the copyright act was no more intended to authorize agreements in unlawful restraint of trade and tending to a monopoly in violation of the Sherman Act than was the patent statute. The Sherman Act, according to the Court, was broadly designed to reach all combinations in unlawful restraint of trade which tended because of the agreements or combinations entered into to build up and perpetuate monopolies. The Act was held to be a limitation of rights which might be pushed to evil consequences and which could, therefore, be restrained.

After the suit with the American Publishers Association, the Macy company became involved in a suit with the Victor Talking Machine Company which was settled by the Supreme Court decision of April 9, 1917. This decision was a victory

for the opponents of price maintenance. The Court decided that the monopoly of use accorded by the patent law could not be made a means of controlling the price of the patented articles after they had been in reality, even though not in form, sold and paid for. It held, further, that any attempt by means of "license contracts" with dealers or "license notices" attached to patented machines, to retain title in the manufacturer and patent owner until the expiration of the latest patent referred to in such notice, would not be regarded as a legitimate exercise of the patent owner's control over the use here. Plainly, from the terms of the "license notice" and from the rules established between the patent owners and the dealers through whom the machines were distributed, the object of such reservations and restrictions was to enable the patent owner to fix and maintain the price at which the machines might be disposed of after they had passed from its possession and into the possession of the dealers and the public, and after it had received from the dealers the full price which it asked or expected for the machines.

This case first had been decided in favor of the Macy company by the District Court. This decision had been reversed by the United States Circuit Court of Appeals, which upheld the validity of the Victor system of contracts. The Macy Company then appealed to the United States Supreme Court, which confirmed the decision of the District Court and reversed the decision of the Circuit Court of Appeals, on the grounds which have been stated.

Early in 1921 the United States District Court began trial of a suit brought by R. H. Macy and Company under the Sherman and Clayton Acts against the Victor Company to recover damages of $190,000 alleged to have been sustained by the Macy Company because of the refusal of the Victor Company and its distributors to supply it with Victor products. In the testimony it was brought out that the Macy Company in connection with Abraham & Straus, a Brooklyn department store, had established a joint purchasing bureau in New York through which the two stores secured merchandise not readily available through the usual channels. This purchasing bureau, it was said, found a number of instances where Victor dealers stated that they were unwilling to sell machines and records for the use of R. H. Macy and Company for fear that the Victor Company

would cut off their supply. In one case a dealer required the purchasing bureau to come for the merchandise early in the morning before the usual hour of opening for business, and other dealers who did sell to the purchasing bureau required that purchases be made in the name of individuals in order that the real purchaser might be disguised.

According to press reports, Mr. Herbert N. Straus, a member of the firm of R. H. Macy and Company, stated that, for several years preceding, the Victor Company and its distributing agents had refused to sell machines and records to R. H. Macy and Company and that that firm finally had been compelled to resort to a subterfuge to procure the products of the Victor Company. He explained that employees of the department store, mostly women, had been instructed to visit Victor dealers throughout greater New York and nearby cities to purchase Victor records at retail for cash. When such purchases had been made, Mr. Straus said, the merchandise had been delivered at the homes of the purchasers and later removed by Macy delivery trucks to the store, where the merchandise ultimately had been offered for sale to its patrons.

A verdict in this suit was handed down on March 25, 1921, and it granted to the Macy Company damages for the period prior to May 29, 1917, at which time the Supreme Court decision went into effect. No damages were awarded for losses alleged to have been sustained by the Macy Company after May 29, 1917.

Previous to the cases involving Macy's and the Victor Company, the courts have handed down a number of decisions involving price maintenance. In 1905, in the case of Bobbs-Merrill Company vs. Straus, *et al.*, the Supreme Court declared that a publisher could not, by a notice in a copyrighted book, imply a contract between the publisher and subsequent purchasers, these purchasers' licensees or agents, or limit or restrict the title secured by those purchasers.

Six years later, in the case of the Dr. Miles Medical Company vs. Park, the same Court decided that a system of contracts between manufacturers and wholesalers and retail merchants by which the manufacturer attempted to control not merely the price at which its agents might sell its products, but also the prices for all sales by all dealers at wholesale or retail, whether purchasers or sub-purchasers, thus eliminating all competition

to restraint of trade and was invalid both at common law, and, so far as it affected interstate commerce, under the Sherman Act. The Court held that the Dr. Miles Company secured no special privileges from the fact that its products were manufactured by a secret process.

In 1913, in the case of Bauer vs. O'Donnell, the Supreme Court held that a patentee might not, by notice, limit the price at which future retail sales of the patented article might be made, said article being in the hands of a retailer by purchase from a jobber who had paid to the agent of the patentee the full price asked for the article sold. The Court thus applied to patented articles reasoning similar to that applied to copyrighted articles in the case of Bobbs-Merrill vs. Straus.

Further, the Court held that the right given by the patent law to the inventor to use his invention should be protected by all means properly within the scope of the statute, and that the patentee might transfer a patented article with a qualified title as to its use. Where the transfer of the patent article was full and complete, however, an attempt to reserve the right to fix the price at which it was to be resold by the vendee would be futile under the statute. Such an attempt would not be a license for qualified use, but an effort unduly to extend the right to vend. The Court further defined its position by declaring that while the patent law created to a certain extent a monopoly by the inventor in the patented article, a patentee who had parted with the article patented by passing title to a purchaser had placed the article beyond the limits of the monopoly secured by the act.

In the case of the American Graphophone Company vs. Boston Store, in 1915, the Supreme Court took a similar stand, but added that an agent or vendee of a patentee might by direct covenant bind himself to the observance of price restrictions imposed as a condition on which exclusive right of sale by the patentee might be exercised.

The decision was practically the same in principle as the decision of the same Court in the preceding year in the case of the Ford Motor Company vs. Union Motor Sales Company. In that case the Court held that where the owner of a patent sold a machine made by him thereunder and received for that machine the full price asked and all that he expected to receive,

he had fully exercised the exclusive right to sell given him by the patent laws, so far as related to the particular machine sold, and that he could not legally fix the price at which that machine might be resold by the purchaser.

Questions

1. What steps should R. H. Macy and Company have taken subsequent to the decision in 1921, in an attempt to secure further protection against manufacturers and others who attempted to maintain resale prices?

2. Under what conditions should the Macy Company, when manufacturers refuse to supply it with merchandise, attempt to get that merchandise through indirect channels?

General Problem Reference:

For many of the arguments for and against price maintenance, from both the economic and the legal point of view, the student is referred to the following authors, sources, and cases: Boston Chamber of Commerce, *Referendum on Maintenance of Resale Prices*, May 8, 1916; Chamber of Commerce of the United States, *Report of the Special Committee on Maintenance of Resale Prices*, 1916; Cherington, P. T., *Advertising as a Business Force;* Roger, E. S., "Predatory Price Cutting as Unfair Trade," *Harvard Law Review*, December, 1913; Taussig, F. W., "Price Maintenance," *American Economic Review, Supplement,* March, 1916; Tosdal, H. R., "Price Maintenance," *American Economic Review*, March, 1918, page 28, and April, 1918, page 283; Bobbs-Merrill vs. Straus, 139 Fed. 155, 2 Fed. Anti-Trust Decision 755, 210 U.S. 339; Continental Wall Paper vs. Voight, 148 Fed. 939, 3 Fed. Anti-Trust Decision 44, 212 U.S. 227; Dr. Miles Medical Company vs. Park, 220 U.S. 373, 4 Fed. Anti-Trust Decision 1; Bauer vs. O'Donnell, 229 U.S. 1; Straus and Straus vs. American Pub. Association, 231 U.S. 222, 201 Fed. 306; Henry vs. Dick, 224 U.S. 1; Ford Motor Company vs. Union Motor Sales Company, 225 Fed. 373; American Graphophone Company vs. Boston Store, 225 Fed. 785; Straus vs. Victor Talking Machine Company, 243 U.S. 490.

D. RETAIL PROBLEMS IN RELATION TO GENERAL BUSINESS CONDITIONS

General Administration 61

Rollins Department Store—General Problem on Business Cycle

One of the characteristic features of modern business is the periodical recurrence of abnormal prosperity and abnormal depression in business. The usual course of such business cycles may be analyzed roughly as follows:

A. Rise in stock exchange prices, followed by rising commodity prices, in which prices of important materials used in manufacture usually rise more, on the average, than do prices of finished products.

B. General business expansion and increased demand for credit by both business men and speculators. As a result of expansion liquid assets tend to become converted into fixed capital such as new plants or plant extensions. Simultaneously, as a result of expansion of commodity prices, more capital is required for current operations, and loans expand.

C. Money rates are stiffened and credit is strained, accompanied by curtailment of credit for speculative purposes.

D. Finally stock exchange prices fall, but meanwhile business continues to expand and commodity prices to increase unevenly, the apparent shortage of goods being intensified by speculative buying and duplication of orders by merchants and other buyers, until the limit is reached in credit expansion. In cycles where the rise of prices is very great consumers frequently revolt and "buyers' strikes" occur.

E. Public confidence is shaken, resulting in widespread cancelation of orders, liquidation of inventories, and sharp and irregular fall of prices, in which the prices of materials fall more rapidly than prices of products.

The most serious factor in such a period is the maladjustment between the prices on different commodities and between prices and expenses. This maladjustment is one of the principal causes of uncertainty and stagnation. Some interesting facts in this connection are pointed out by Professor Melvin T. Copeland in the following article on "The Readjustment of Operating Expenses" which appeared in the *Review of Economic Statistics*, published by the Committee on Economic Research, Cambridge, Massachusetts, October, 1921.

F. Lower prices bring curtailment of purchasing power of classes producing goods, and general business recession, accompanied by business failures, unemployment and lower wages for labor.

G. Low money rates and relatively lower costs of materials bring about conditions outlined in *A*.

The Readjustment of Operating Expenses*

By Melvin T. Copeland

Looking at the business cycle broadly, one of its prominent features is the adjustment of operating expenses that it necessitates. In a period of prosperity, when selling prices are rising and the volume of sales increasing, wages, rents, and other items of expense almost inevitably tend to rise. In any one business some items of expense usually rise faster than prices, while other expenses lag behind. The normal relationship between industries and trades, which are buying each other's products or competing for raw materials, transportation space, labor, and credit, also is upset. The result is that eventually the balance between costs and prices is gravely disturbed.

After the peak of prosperity is passed, sales slump, and sooner or later a rapid drop in prices occurs in most industries. The falling off in revenue necessitates downward readjustment of operating expenses through curtailment of production, through the increased efficiency of employees who no longer can readily find jobs elsewhere, through the introduction of more economical methods of operation, or perhaps through actual reductions in wage rates, rents and other items of expense. Meanwhile the profits of the business are jeopardized, the degree of jeopardy being reflected, in the case of a large corporation, in the reluctance of investors to buy its securities. During the summer of 1921, for example, it is probable that the depression in security prices has been intensified, not only by foreign influences and by a lack of funds in the hands of investors, but also by the hesitation of

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investors to buy securities before there is evidence that operating expenses have been successfully readjusted to income.

During a period of recovery of business prosperity, such as we now seem to be facing, the normal balance between costs, prices, and profits tends to be gradually restored.

The adjustments and readjustments of operating expenses suggested in this rough sketch are part and parcel of the business cycle. Data are not available, however, to permit a close analysis of the process by which the adjustments work out. Such data as have been collected indicate, nevertheless, that a thoroughgoing study of operating expenses with reference to the business cycle probably would reveal where maladjustments tend to occur and indicate the points that are most symptomatic of future conditions.

The scattered data of this sort that are now available include those given in the Federal Trade Commission *Report on the Leather and Shoe Industries*, August 21, 1919, the report of the Bureau of Business Research, Northwestern University, on the retail clothing trade,* and the bulletins of the Bureau of Business Research, Harvard University, on operating expenses in the retail shoe, grocery, hardware, and jewelry trades and in the wholesale grocery business.

In the report of the Federal Trade Commission, cost figures per pair are given for the 5 years, 1914-18, for 76 grades and styles of shoes, including 25 styles of men's shoes, 40 styles of women's shoes, 4 of misses' shoes, and 7 of children's shoes. The cost figures, obtained from 13 factories, are classified into leather, materials other than leather, labor, and overhead. A brief examination of the figures for overhead indicates wide variations that probably were due to differences in accounting methods; consequently, overhead costs and total costs are not included in the following summary prepared from the report. For the purposes of this summary, the actual figures for each of the three items of cost and the selling price per pair have been converted into relatives. The 1914 figure, in each case, was taken as equal to 100 and the method of simple averages used in obtaining the relative for the combined group of styles in each year.

**Costs, Merchandising Practices, Advertising, and Sales in the Retail Distribution of Clothing.* 6 vols. Prentice-Hall, Inc., New York City. $15.

TABLE I

COSTS PER PAIR OF SHOES—RELATIVES

(1914 Costs=100)

	1914	1915	1916	1917	1918
Leather	100	102	125	191	186
Other Materials	100	120	120	153	169
Labor	100	102	106	118	134
Selling Price	100	103	121	152	169

According to this table the cost of leather per pair of shoes increased 86% from 1914 to 1918. The cost of other materials per pair of shoes increased 69% during the same period; labor costs increased 34%, and the selling price 69%. Using the average actual cost figures, the cost of leather was 51.1% of the selling price in 1914 and 54.9% in 1918; the cost of other materials was 9.1% in 1914 and 9.7% in 1918; while labor costs were 18.7% of the selling price in 1914 and 14.6% in 1918. Such divergencies in costs obviously tend to throw an industry out of balance, with the result that a period of slackened activity is essential for the restoration of the normal relationships. Without attempting to draw any hard and fast conclusions from these data, it is apparent that similar information for representative manufacturing industries would show where maladjustments occur during the cycle of price changes and give some clues to the relations of these maladjustments to each other and to other factors affecting business prosperity.

Turning to mercantile businesses, the report of the survey of the retail clothing trade by the Bureau of Business Research of Northwestern University provides data on operating expenses, volume of sales, and prices in that trade in 1914, 1918, and 1919. In 283 stores that reported for each of the three years, the average net sales per store in 1914 were $53,860; in 1918, $84,698, an increase of 57%; in 1919, $121,306, an increase of 125% over 1914. This increase in sales, expressed in dollars and cents, was in part due to the sale of a larger number of units and to a greater degree to the rise in prices. In 56 identical stores the number of suits sold in 1918 was 6% greater than in 1914, and in 1919 the number was 38% greater than in 1914. The average selling price per suit in these 56 stores, without reference to any change in quality that may have occurred, increased 37% in 1918 over 1914, and in 1919 it was 78% higher than in 1914.

These figures indicate larger sales of clothing in these stores in the last year of the war, despite the number of men who had entered military service, and a further heavy increase in the number of units sold as well as a rapid rise of prices in 1919.

The following table summarizes briefly the comparable data in this survey on expenses for wages and salaries, advertising, rent, and total expense in the retail-clothing trade. In this table the figures for general expense given in the survey are not included; apparently there was no standardized practice in handling such items as cartage and drayage, taxes on real estate, and interest on borrowed money, for example. For each item the figures received from a group of identical stores for the three-year period are given. Thus 227 stores reported their wages and salaries for each of the 3 years; 211 reported their advertising expense for each of the 3 years.

TABLE II

OPERATING EXPENSES IN RETAIL CLOTHING STORES

(Net Sales=100%)

	Number of Stores	1914	1918	1919
Wages and Salaries	227	13.04%	13.20%	12.17%
Advertising	211	2.47	2.05	2.08
Rent	268	3.69	2.86	2.21
Total Expense	229	24.73	23.92	22.25

Thus it appears that in 1918 wages and salaries, which constituted more than one-half the total expense, were a slightly higher percentage of net sales than in 1914. The rate at which wages and salaries increased was apparently not the same, however, in small cities and in large cities, presumably because of the more intensified competition for labor in the large cities on the rising market. In 175 clothing stores in cities with less than 40,000 population, the percentage of expense for wages and salaries fell from 12.7% in 1914 to 12.2% in 1918, but in 52 stores in cities with a population of 40,000 and over, wages and salaries increased from 13.6% of net sales in 1914 to 14.4% in 1918. In the stores in both large and small cities, nevertheless, wages and salaries in percentage of net sales fell off in 1919; in that year in the cities of less than 40,000 population wages and salaries were 11.2% of net sales, and in 52 stores in cities of 40,000 population and over this item was 13.3% of net sales.

As is indicated later, this decline seems to be in contrast to the experience of merchants in several other retail trades. On the whole, however, the expense for wages and salaries showed a remarkably close adjustment to the change in the volume of sales and the rise in prices. It is to be remembered that in these clothing stores the volume of net sales was 125% greater in 1919 than in 1914, whereas the difference in percentage of expense for wages and salaries in the two years was less than 1% of net sales.

Rent expense per $100 of sales declined from $3.69 in 1914 to $2.86 in 1918 and $2.21 in 1919. This falling off in percentage of rent expense is similar to the experience of several other trades. Although the percentage of rent expense was higher in cities with 40,000 population and over than in the smaller cities, nevertheless the stores in both groups of cities showed the same tendency for the percentage of rent expense to decline.

Total expense in these retail-clothing stores likewise showed a small decline, in percentage of net sales, during these years. It would be of real value to have similar data for these items of expense for the period of declining prices which began in 1920.

The proportion of sales that are credit sales has a direct effect on such operating expenses as office salaries and supplies, interest, and losses from bad debts. It is significant, therefore, that the following table in the report of the Northwestern survey indicates that the amount of credit granted to customers by the clothing stores increased approximately as fast as total sales, but not more rapidly.

TABLE III

PER CENT OF CHARGE SALES TO TOTAL NET SALES

	1914	1918	1919
United States			
Number of Stores	187	295	315
Per Cent of Charge Sales	31.86%	30.13%	30.75%
East			
Number of Stores	30	45	46
Per Cent of Charge Sales	28.32%	25.25%	25.96%
South			
Number of Stores	24	44	48
Per Cent of Charge Sales	45.94%	41.25%	42.06%
East North Central			
Number of Stores	54	87	94
Per Cent of Charge Sales	26.38%	26.31%	27.54%

	1914	1918	1919
West North Central			
Number of Stores	64	95	101
Per Cent of Charge Sales	30.54%	28.19%	29.25%
West			
Number of Stores	15	24	26
Per Cent of Charge Sales	29.36%	27.76%	27.23%

One of the interesting points brought out by the preceding table is the higher percentage of charge sales in the South than in the East and North. Despite minor fluctuations, however, during these years of rapid changes in economic conditions, the percentage of charge sales to total net sales showed only slight varitations within each geographical district.

Figures on operating expenses in several retail trades have also been collected by the Bureau of Business Research, Harvard University. Although the stores included in the summary for each year are not identical with those for other years, nevertheless tests have been made by the Bureau for small groups of identical stores and the results in all cases have been found to conform closely to the figures for the larger number of stores. These figures serve to show approximately the readiness with which operating expenses have been adjusted to changes in the volume of sales and price fluctuations.

In the following tables some of the chief items have been selected from the summaries published in the Harvard Bureau's bulletins. The common figures for gross profit and net profit also are given in these tables, gross profit being determined by the deduction of the cost of goods sold from net sales and net profit by deducting total expense from gross profit.

TABLE IV

Operating Expenses and Profits in Retail Shoe Stores

(Net Sales=100%)

	1912–15	1918	1919
Number of Stores	109	145	197
Wages of Sales Force	8.5%	8.1%	8.3%
Advertising	1.5	1.1	1.3
Buying, Management and Office Salaries	2.75	4.2	4.2
Rent	3.3	2.7	2.3
Total Expense	23.8	23.9	24.0
Gross Profit	26.6%	31.7%	33.1%
Net Profit	2.8	7.0	9.0

TABLE V

Operating Expenses and Profits in Retail Grocery Stores
(Net Sales=100%)

	1914	1918	1919
Number of Stores	253	197	175
Wages of Sales Force	6.5%	4.7%	4.9%
Wages of Delivery Force	1.5	1.4	1.4
Other Delivery Expense	1.5	1.0	1.0
Buying, Management and Office Salaries	2.0	1.6	2.0
Rent	1.3	1.1	1.1
Losses from Bad Debts	0.5	0.4	0.3
Total Expense	17.3	14.0	14.6
Gross Profit	21.0%	16.9%	17.0%
Net Profit	3.7	2.3	2.0

TABLE VI

Operating Expenses and Profits in Retail Hardware Stores
(Net Sales=100%)

	1917–18	1919
Number of Stores	218	155
Wages of Sales Force	5.8%	6.2%
Delivery	0.9	0.7
Buying, Management, and Office Salaries	3.5	4.0
Rent	2.4	1.7
Losses from Bad Debts	0.5	0.5
Total Expenses	20.6	21.0
Gross Profit	26.5%	27.1%
Net Profit	6.0	5.8

TABLE VII

Operating Expenses and Profits in Retail Jewelry Stores
(Net Sales=100%)

	1919	1919
Number of Stores	100	182
Wages of Sales Force	8.5%	9.8%
Advertising	2.0	2.0
Buying, Management, and Office Salaries	4.9	4.9
Rent	4.0	3.9
Losses from Bad Debts	0.3	0.3
Total Expense	32.3	32.7
Gross Profit	40.1%	39.1%
Net Profit	7.6	6.4

In contrast to the experience of the retail-clothing stores, the expense for wages of sales force was slightly higher in percentage of net sales in 1919 than in 1918 in the retail shoe, grocery, and hardware stores from which the Harvard Bureau received reports. Other wages and salaries also were as high or higher in percentage of net sales in these stores in 1919 than in the preceding year. As in the case of the retail-clothing stores, however, the ratio of rent expense to net sales tended to decline slightly in each of these trades. Despite the variations in some of the individual items of expense in the different years covered by the above tables, the percentage of total expense remained fairly constant during the period of rapidly rising prices, except in the retail-grocery trade where war-time restrictions and chain-store competition probably forced the introduction of more economical methods.

With the recent drop in prices and the opening of a new business cycle, these expense ratios in retail stores may undergo marked change, or they may continue to remain fairly constant. The available records do not cover a sufficiently long period to warrant any expression of opinion on this point. It is noteworthy, nevertheless, that in all these trades expenses have followed prices closely on a rapidly rising market.

The rate of stock-turn—that is, the rapidity with which stocks of merchandise are sold and replaced—might be expected to increase in retail stores during years of brisk business, thereby lessening interest charges and effecting other economies in expense as well as a reduction in losses from depreciation and obsolescence. This result was not generally accomplished, however, in the recent years of prosperity in the retail trades for which stock-turn data have been assembled. In spite of the broadly proclaimed shortage of merchandise in 1919, for example, the rate of stock-turn in most retail stores seems to have been but little higher than in other years. In the retail shoe stores from which the Harvard Bureau received reports, the annual rate of stock-turn in 1912–15 was 1.7 times, in 1918 1.7 times, and in 1919 1.8 times. In the retail grocery stores it was from 7 to 9 times a year in 1914, 7.9 times in 1918, and 8.3 times in 1912. In the retail hardware stores it was 1.8 times in 1917–18 and 2.1 times in 1919. In retail jewelry stores, the annual rate of stock-turn was 1.1 times in 1919, and 0.9 times in 1920.

These figures do not indicate any such general depletion of dealers' stocks during the period of rising prices as was commonly rumored in business circles. These figures for the rate of stock-turn, together with the other figures that the Harvard Bureau has published regarding inventories at the beginning and end of the year 1919, indicate that most retail merchants did not foresee the decline in prices which came in 1920 and that generally they had large stocks of merchandise on hand at the end of 1919. They had bought heavily in order to obtain the benefit of rising prices and also because of the difficulties of securing prompt deliveries. The result of having large stocks of high-priced goods on hand when prices began to fall was an abnormal curtailment of purchases from wholesalers and manufacturers, thereby intensifying the depression.

There is urgent need for far more accurate data showing when and where the accumulation of stocks occurs and where curtailment and expansion of business take place during the various stages of the business cycle. The dissemination of information of this sort probably would of itself help to lessen the severity of general business fluctuations by revealing the facts which would show that oftentimes a supposed shortage is fictitious and at other times that the surplus stocks on hand are not as excessive as the tradespeople believe. Such data eventually should assist merchants in increasing their rate of stock-turn during years of brisk sales, thereby helping to decrease their operating expenses, lessen their credit requirements, and leave them with minimum stocks at the time when prices begin to fall.

The only wholesale trade for which figures on operating expenses are available over a period of years is the wholesale grocery business. The table on page 968 is a summary of information published in a recent bulletin of the Harvard Bureau of Business Research. In the preparation of this table the figures of 43 firms were used which had reported their expenses in complete detail according to the standard accounting system for the five-year period covered by this table. These reports permit of exact comparison.

The reduction of the total expense ratio from 10% of net sales in 1916 to 9% in 1920 was not the result of a marked change in in any one item but rather a general paring down in practically all items, the decline being the heaviest in total sales force expense,

TABLE VIII

OPERATING EXPENSES AND PROFITS IN THE WHOLESALE GROCERY BUSINESS
(Net Sales=100%)

	1916	1917	1918	1919	1920
Total Sales Force (including wages and traveling expense)	2.7%	2.4%	2.5%	2.2%	2.2%
Other Wages and Salaries	2.6	2.4	2.6	2.7	2.5
Total Fixed Charges and Upkeep (including rent, taxes, insurance, etc.)	2.6	2.5	2.4	2.6	2.5
Losses from Bad Debts	0.3	0.2	0.2	0.1	0.2
Other Expenses	1.8	1.8	1.7	1.7	1.6
Total Expense	10.0	9.3	9.4	9.3	9.0
Gross Profit	13.3	13.5	11.5	11.5	8.2
Net Profit	3.3	4.2	2.1	2.2	*Loss 0.8*

which includes not only wages and salaries, but also traveling expense of the sales force. In 1920 prices and the receipts from sales fell off at a faster rate than expenses. The result was that, whereas gross profit was 13.3% of net sales in 1916 and 13.5% in 1917, it was only 8.2% in 1920. The average wholesale grocer showed a net loss of 0.8% of net sales in 1920. This reflects the drop in prices and especially the heavy loss on sugar which was experienced by many wholesale grocers.

The average annual rate of stock-turn of these 43 wholesale groceries was 6 times in 1916, 5.9 times in 1917, 5.2 times in 1918, 5.0 times in 1919, and 6.3 times in 1920. It is to be noted that during the period of rising prices the annual rate of stock-turn tended steadily to decline and that it rose substantially in 1920. This tendency is confirmed by comparisons of inventory figures that have been made. Among the 322 wholesale grocery firms with aggregate sales of $643,949,000 in 1920 from which the Harvard Bureau received reports this year, the firms that showed a net profit in 1920 had an average stock-turn of 7.1 times; the firms that showed a net loss had an average rate of stock-turn of 5.7 times. Thus it appears that the stocks carried by wholesale grocers generally did not fall off during the period when prices were rising and no curtailment of purchases was made until after the demand slackened and prices broke.

A letter of inquiry concerning sugar purchases in 1920 recently was sent to a group of representative wholesale grocers. Twenty-four replies were received. Six of the replies were from wholesalers in the Far West. These firms stated that they did not experience abnormally heavy losses on sugar, owing to their

relation with the beet sugar companies and the California refineries. As one California wholesale grocer wrote: "The trade in this section was assured by the cane- and beet-sugar people that they would always be able to rely on being furnished a sufficient, reasonable supply for their requirements and at the most favorable price ruling on seaboard refining point basis. The producers and refiners generally did not welcome the extreme antics of the sugar market and some did not hesitate to advise wholesale grocers against buying except strictly from hand to mouth and to avoid any purchases at the extreme top-notch price touched by the market." In the reports on operating expenses in 1920 obtained by the Harvard Bureau, it is to be noted that the San Francisco Federal Reserve district was the only district in which the wholesale grocers showed an average net profit. Among the wholesale grocers in other parts of the country who replied to the inquiry regarding sugar purchases, 7 began to curtail their purchases of sugar prior to July 1, 1920, and 11 stated frankly that they did not adopt any plan of curtailment before the break in the market came. They had not considered sugar as subject to the same influences that had started the slump in prices in several other industries during the first 6 months of 1920.

The three points that stand out most strikingly from this examination of changes in operating expenses while prices were swinging upwards are:

(1) The wide divergencies that appear in the rates at which the various items of expense and selling prices increased in several shoe factories.

(2) The closeness with which operating expenses followed the fluctuations in receipts from sales in several mercantile business, as shown by the small variations in the percentages of expenses to sales.

(3) The failure of so many merchants to increase their rate of stock-turn in years of unusually active business, in order to economize in expenses and to be prepared for the period of depression.

These data are only a small sample of the sort of records of business experience that are needed. Such records as these,

compiled on a broad, comprehensive scale for a period of at least 15 or 20 years, are essential for the full interpretation of the forces that cause the ups and downs of business prosperity.

During a period of stress there is always a large amount of uncertainty among business executives as to the best policy to follow. This point may be illustrated by the contrasting policies of two stores in Philadelphia during the business crisis of 1919–1921.

The Sanford Specialty Store is located near the department-store district, within a block of the most exclusive specialty shops in the city. This store does distinctly a specialty business in women's ready-to-wear at popular prices. Because of its location and the class of merchandise that it carries, this store competes with the department stores rather than with the more exclusive specialty shops of the city.

Early in the spring of 1920, the Sanford store curtailed buying. It reduced its prices sharply at the time of the Wanamaker reduction on the 15th of May and continued to reduce prices whenever replacement values were lowered. In this manner the company liquidated its old stock as rapidly as possible, often selling below cost. This policy was featured in the store's advertising and was the cause of a rapid increase in sales volume.

In replenishing its stocks, the firm bought from hand to mouth; its buyers were instructed that this policy was to be followed for the rest of the year and well into the year 1921, if prices continued to fall. In some instances its buyers remained in New York for a month at a time purchasing from day to day small lots of merchandise, which were shipped out each night. Only when it was necessary to get a better idea of the demands of the store's customers did the buyers leave New York for a hasty trip to Philadelphia. Because of this hand-to-mouth buying policy and low-price campaign, the rate of stock-turn of the Sanford store was greatly increased. In the waist department, for example, the stock was turned 20 times within one month. The volume of sales increased from day to day as the season advanced until the store found that it was doing fully twice as much business each month as it had done during the corresponding month of the preceding year.

The Pearson Specialty Store is located in the most exclusive shopping district of the city and is often the first in the city to

show the newest styles. It usually carries large stocks of expensive merchandise and caters almost entirely to a wealthy clientele.

On June 1, 1920, the Pearson Specialty Store took a 20% price reduction on the majority of its merchandise. The merchandise manager stated that in his opinion the company had taken all the losses necessary. Because of difficulty in securing deliveries, department heads continued to buy freely, placing orders for merchandise to be delivered several months ahead. Aside from the price cut on the 1st of June, this store did not make drastic reductions, although prices were lowered gradually in order to meet competition. As a result, sales fell off and the rate of stock-turn was considerably lower than it had been the previous year.

The proprietors felt that for their class of business it would be unwise to take drastic price cuts. Their store was heavily stocked with expensive merchandise. A big reduction in price would only insure loss. Furthermore, in view of the uncertain conditions of the market and the falling off in the buying of customers, the proprietors were afraid that a big price reduction might break the market and cause even greater losses. By lowering their prices enough to show their customers that they had made some reduction they hoped to be able to unload their large stocks of high-priced goods at a smaller loss than they would have to take if big reductions were made.

The Rollins Company operates a department store which is more or less typical of the medium-size stores in large cities. It specializes in women's and misses' suits, coats, dresses, waists, shoes, hosiery, lingerie, and millinery. It also carries men's suits, overcoats, hats, and shoes. In addition to these departments the store has large stocks of furniture, toys, toilet articles, and kitchenware. This store is one of the most conservative in the city. Its customers depend on it to offer a wide range of merchandise at varying prices. For this reason it is forced to carry large stocks and its stock-turn normally is lower than the stock-turn of either of the specialty stores just described.

Question

What price and buying policies should have been followed by the Rollins Company from June 1, 1920, to the end of the year?

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Dixon Department Store—When to Stop Buying

The rates of rediscount were raised by the Federal Reserve banks in November, 1919, and several additional increases were made in the two months following. The price of raw silk, which had advanced to 17.77 the third week in January, 1920, began to drop rapidly when the Japanese silk market broke about the first of February. Shortly after this break in the silk market, one of the large New York department stores curtailed its purchases to a considerable extent and began buying from hand to mouth.

Business in the retail trade had been generally good and in many cases sales were increasing at an abnormal rate. With high wages there had been an increasing demand for silk shirts and other luxuries, and in many of the stores the class of customers was changing. In the exclusive shops the more well-to-do clientele appeared to be buying less and new accounts were being opened by industrial workers.

One of the large department stores located in the East had been experiencing particularly good business, and its buyers, following the regular policy of the store, had been allowed to purchase merchandise as their judgment dictated, receiving only occasional suggestions and advice from the merchandise office. In March, 1920, however, without previous warning, an order was issued by the managers that buyers would not be permitted to purchase merchandise amounting to more than $50 without a written order from a member of the firm. This gave rise to many rumors as to the store's financial condition and the buyers were dissatisfied generally because they were convinced that a curtailed buying policy meant lessened profits for their departments.

The reluctance of the public to buy merchandise at high prices was apparent in April and newspapers began to refer to the situation as a "Buyers' Strike." A movement was started in several localities for men to wear overalls as a protest against the high cost of clothing and other necessities. In May, the Wanamaker's announced a flat reduction of 20% on all merchandise and additional police reserves were required to handle the crowds that flocked to this store.

The Dixon Department Store in the Middle West did not curtail its buying in the spring and summer of 1920, as did many other stores. Many business forecasters predicted that the period of price-cutting would be short-lived and the managers of the Dixon store had been led to believe that there would be an earlier resumption of business activity than later proved to be the case. They, therefore, permitted their buyers to place larger orders for merchandise for delivery in the spring of 1921 than proved to be wise. Toward the close of the year cancelations were made wherever possible. Heavy mark-downs were taken on the merchandise in stock and although the Dixon store had made a high rate of profit in the early part of 1920, the figures for the entire year showed a loss.

In view of the unsatisfactory results of their buying policy in 1920, the directors are convinced that it is necessary to develop a definite policy to meet the changes of the business cycle. The forecasts of a number of statistical agencies have been secured and a directors' meeting held to determine to what extent such information should be used in shaping the policies of the store in anticipation of a future crisis.

There was some disagreement among the directors as to the factors that should govern the establishment of a buying policy. One of the managers stated that in his opinion it was impossible to tell when a store had reached the peak of prosperity. He cited instances in the past two or three years when their buyers had believed that prices could go no higher and had lost money for the store because they had failed to secure sufficient stocks of merchandise. He also pointed out that under almost the same conditions in other years these buyers had lost money by placing orders for merchandise ahead in order to insure their departments having sufficient stock for the coming season.

The treasurer said that reliable statistical agencies made forecasts of the business cycle which were based on indexes of business conditions and the general prosperity of the country. Upon comparing the reports of various agencies it was found that they did not all agree. Some forecasts had predicted a business depression several months before it had occurred. One of the directors called this fact to the attention of his associates and asserted that had the buyers followed such a prediction they might have lost even a greater amount of money for the store.

The managers were, therefore, divided on the question of the advisability of relying on statistical reports and forecasts.

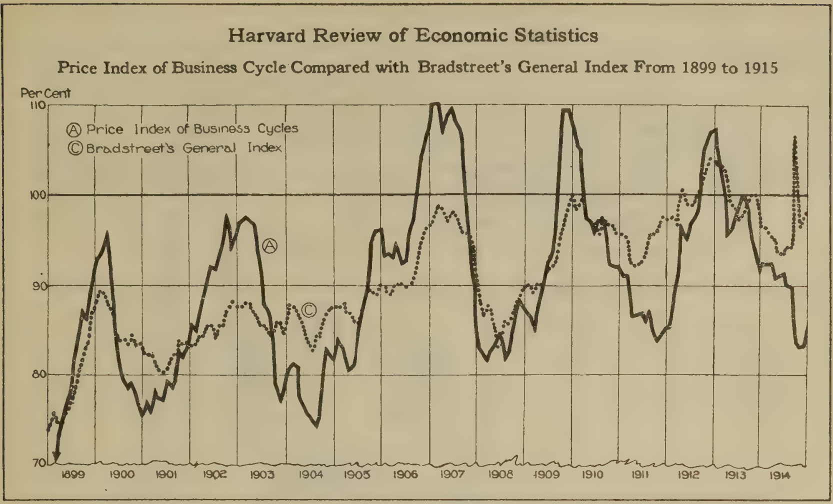
Three of the directors said that in their opinion the volume of sales was the only basis which should govern the store's buying policy, since the merchandise was purchased to sell to customers and not for purposes of long-time speculation. They said that if it were possible for a store to close its doors in periods of bad business as was done by manufacturers and other establishments, then it would be possible for buyers to purchase merchandise at low prices and hold it over for a period of prosperity, but as long as it was necessary to buy merchandise to satisfy the store's customers' daily needs, the rate of stock-turn should be kept as high as possible; consequently, they advocated buying from "hand-to-mouth" and taking their losses when they came regardless of anything else.

Several of the directors stated frankly that they did not believe there was such a thing as a business cycle. They admitted that hard times occurred occasionally, but that it was only natural that business should have a falling off after such abnormal conditions as those brought about by the World War. They argued that the losses sustained by the store had been due to the unusual conditions which the country as a whole was experiencing. One of the directors said that in his opinion there had been too much talk about the business cycle, that it was perfectly obvious that bad times did not occur every two, or three, or five years, for if they did every business man would know that fact and prepare himself accordingly.

One of the directors referred to the following forms (91 and 92) which appeared in the *Review of Economic Statistics*, Harvard University, for November, 1921, in the article, "A Commodity Price Index of Business Cycles," by Warren M. Persons.

In presenting these charts for consideration by his colleagues, the director gave the following brief summary of the article, "Commodity Price Movement During Business Cycles, published in the *Special Letter* of November 8, 1921, by the Harvard University Committee on Economic Research:

Although the prices of commodities, in general, and many groups of commodities rise and fall together during business cycles, the extent of the rise or fall varies greatly for different commodities and groups of commodities. There are certain basic commodities, such as cotton-

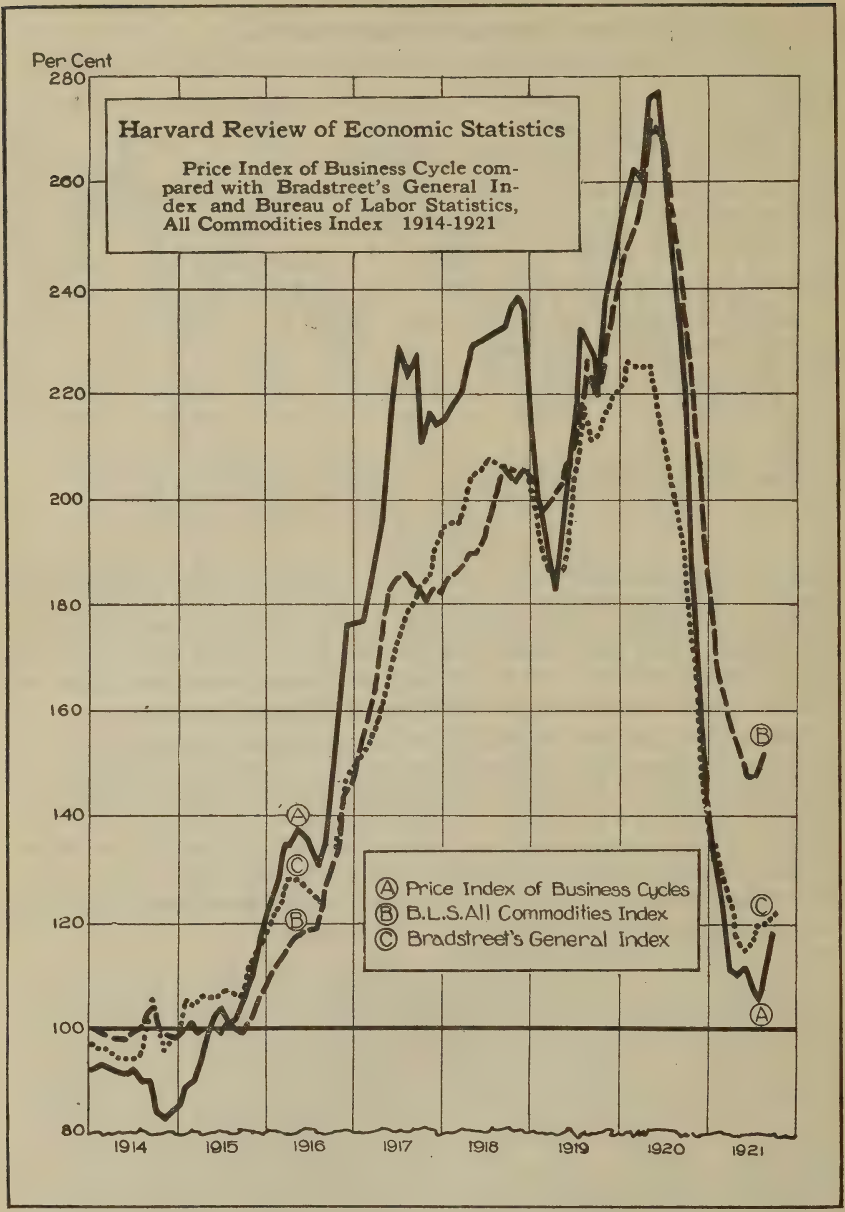


Form No. 91

seed oil, coke, pig zinc, pig iron, bar iron, mess pork, hides, print cloths, sheetings, and worsted yarns, which always have more violent price movements than do other commodities such as steel rails, soda crackers, dress goods, wire, and shoes. In general, the price of raw materials and of articles used in production respond in larger measure to changes in business conditions than do the prices of finished products. . . . .

During the pre-war period the prices of certain commodities and groups of commodities regularly increased in larger measure during business prosperity and declined in larger measure during depression than did other commodities. It appears, therefore, that a "normal" relationship between the prices of various commodities for one phase of the business cycle is not "normal" for another phase. In periods of depression, like the present, it is usual for materials used in production to show much more drastic price recessions than do finished goods and goods ready for consumption.

The extent of the price decline which occurred in 1920-21 was unparalleled; the irregularity of the decline, however, in which certain basic commodities reached very much lower points than did commodities in general, is "normal" for a period of business recession. . . . . The great decline in the prices of certain commodities, such as farm products, diminished the producing power of a considerable portion of our population and thus acted as a depressing influence upon industry. But there is another side to the story; although price disparities have a depressing influence on certain industries they ultimately have a stimulating effect on other industries. In fact, a situation in which many materials for manufacture are relatively cheap compared with finished goods, is one which should lead to industrial activity.


Per Cent
280
260
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220
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80
Harvard Review of Economic Statistics
Price Index of Business Cycle compared with Bradstreet's General Index and Bureau of Labor Statistics, All Commodities Index 1914-1921
1914
1915
1916
1917
1918
1919
1920
1921
Ⓐ Price Index of Business Cycles
Ⓑ B.L.S. All Commodities Index
Ⓒ Bradstreet's General Index

Form No. 92

Questions

1. What buying policy should be formulated by the directors of the Dixon Department Store?
2. What indexes of business conditions should be used by the managers of the Dixon Department Store in determining when to substitute "hand-to-mouth" buying for their usual liberal policy?

General Administration 63

Mitchell Department Store—Improving the Financial Condition of a Store

The Mitchell Department Store, organized in 1882, has an annual sales volume of approximately $4,230,000. The modern eight-story building it now occupies was completed in 1915. This firm is located about 600 miles from New York, but it prides itself on keeping abreast of the latest styles in the eastern market for women's wearing apparel.

In the latter part of the summer of 1920 it was evident that the store was overstocked and that its credit was in more or less of a frozen condition. If the store was to buy merchandise for the spring season it would be necessary for it to borrow from the banks, but it was apparent that the banks might hesitate to loan money to a company whose balance sheet on September 1, 1920, showed the following net quick condition:

Net Quick Condition of Company's Finances on September 1, 1920.

Current Assets	
Cash on Hand and in Bank	$ 34,891.57
Notes Receivable (Customers)	3,742.14
Accounts Receivable (Customers)	492,111.09
Net Inventory of Merchandise	1,204,392.48
United States Securities	464.86
	$1,735,602.14

CURRENT LIABILITIES

Notes Payable (Merchandise)	$ 157,251.19
Notes Payable (Money Borrowed)	592,668.27
Accounts Payable (Merchandise)	314,529.62
Accounts Payable—Sundry	11,200.40
Accrued Taxes	17,892.77
Accrued Salaries	9,217.59
	$1,102,759.84

A meeting of the directors was called to decide what action should be taken to place the company's finances in a better condition. No satisfactory solution was reached, and the treasurer was finally asked to draw up a statement of what he believed the net quick condition of the company's finances should be on February 1, 1921. He was told that this plan must be possible to achieve with the least loss to the store, but at the same time such that the banks would be quite willing to extend credit to the company. The plan submitted by the treasurer was as follows:

Plan of Net Quick Condition of Company's Finances for February 1, 1921.

CURRENT ASSETS

Cash on Hand and in Bank	$ 50,000.00
Notes Receivable (Customers)	6,000.00
Accounts Receivable (Customers)	450,000.00
Net Inventory of Merchandise	750,000.00
	$1,256,000.00

CURRENT LIABILITIES

Notes Payable (Merchandise)	$ 50,000.00
Notes Payable (Money Borrowed)	375,000.00
Accounts Payable Merchandise	150,000.00
Accounts Payable—Sundry	2,000.00
Accrued Items	45,000.00
	$622,000.00

The directors accepted this plan as satisfactory and agreed that it should be possible to achieve the desired result by the date mentioned. They were uncertain, however, as to the best means of reaching this end. In the first place, the buyers of some departments had convinced the controller that it would be advantageous to the store if they were allowed to exceed their open-to-buy figures for June and July. Consequently, these departments were overstocked. On the other hand, the more

conservative buyers had judged the market with better success and the stocks of their departments were in good condition.

It was evident that drastic means would have to be taken to reduce the existing inventory of merchandise on hand, but if a sale was held and only the overstocked departments reduced prices, it might injure the sales of the other departments in the store. It was probable, furthermore, that such a step would not reduce the total amount of stock on hand sufficiently to meet the proposed plan. If all departments were treated alike, however, the efficient buyer who had saved the store money by using good judgment in making his purchases would be penalized for the mistakes of the others. Furthermore, the stocks of the conservative buyers were not in condition to stand a sale, and the company did not care to buy large lots of fall and winter merchandise at a time when customers were hesitating to make purchases. A sale, therefore, might seriously deplete the stock of these departments, and the good will of regular customers might be lost because the store could not fill all their demands.

In the matter of reducing the amount of accounts receivable the directors were also divided. One group advised tightening up the credit policy of the store and adopting a stricter policy in making collections. The others said that the company had always been liberal in granting credit to its customers. In fact, they asserted, a large part of the sales volume of the store was due to this policy. Consequently, they felt that the future success of the firm would be impaired if the existing credit policy were curtailed.

Question

How should the Mitchell Department Store have attempted to improve the net quick condition of its finances to meet the proposed plan on February 1, 1921?

General Administration 64

Sinclair Shoe Store—Reserve for Business Depression

Mr. Blaine Sinclair, who had had considerable experience in operating shoe stores in various cities in the Middle West, established his own shoe store in 1908 in a city of approximately 30,000 population. His business was at first located on a side street, just off the main business thoroughfare, but in four years' time the increase of his sales volume made it necessary for him to move to larger quarters. On January 1, 1912, therefore, he leased a larger building on the main street in the retail district. Previously, he had carried only men's and women's shoes, but the larger size of his new building made it possible for him to lay in stocks of children's shoes and women's hosiery.

Although Mr. Sinclair always opened his store earlier in the morning and kept it open later at night than most of the other stores in the city, and was always careful to watch for possible causes of loss, his profit varied greatly from year to year. One year he made a profit of over 13% and a year or two later his store almost showed a loss. His percentage of operating expense also varied considerably from year to year. His sales, percentage of gross profit, percentage of total expense and percentage of net gain for a nine-year period are tabulated below:

	1912	1913	1914	1915	1916	1917	1918	1919	1920
Sales (in thousands)	52	57	50	52	55	56	76	101	129
Gross profit	25.9%	32.9%	24.8%	32.4%	40.1%	35.0%	28.2%	36.3%	24.3%
Total expense	21.3	23.8	27.7	27.1	26.5	27.9	28.1	30.7	23.9
Net gain	4.6	9.1	2.9*	5.3	13.6	7.1	0.1	5.6	0.4

*Loss

Because of this uncertainty of making a profit and the fluctuation of his operating expenses, Mr. Sinclair is considering the advisability of establishing a reserve in the years of good business to take care of the losses which are almost sure to come in other years. Such a step would enable him to plan on approximately the same percentage of net profit each year regardless of the business cycle.

Questions

1. Should Mr. Sinclair adopt the policy of establishing in years of good business a reserve against future losses?

    (*a*) If so, how should the account be handled, and on what basis should the amount of the reserve be determined?

General Administration 65

Howlett Department Store—Buying and Price Policy

The Howlett Department Store is located in a western city having a population of approximately 10,000 with an additional increase during nine months of the year of 1,200 college students. This store carries men's, women's, and children's ready-to-wear clothing, shoes, hosiery, men's furnishings, rugs, draperies, china, specialties, leather goods, stationery, toilet goods, art goods, and notions. It also carries a large stock of piece goods.

Undoubtedly the Howlett Department Store is the most important store in the town; consequently, it has a large clientele among the farming population of the surrounding district. For this reason it maintains a grocery department and buys produce from the farmers in order to hold their trade. The grocery department is operated at a loss, however, and the managers of the store would like to discontinue it were they not afraid that by doing so they would lose the patronage of a large number of their customers.

The Howlett Department Store usually sends its buyers to New York twice a year to purchase style leaders. Staple merchandise ordinarily is secured from Chicago firms and from traveling salesmen. Fill-in orders are sent to the wholesalers in Spokane to a considerable extent.

In April, 1920, a "buying strike" by the public was reported by eastern newspapers, followed by the announcement in May that the Wanamaker store had reduced all of its prices by 20%. Shortly afterward the managers of the Howlett Store learned that the department stores in Albany, Cleveland, and Detroit had also cut prices, and a wave of price reductions appeared to be spreading to their section of the country. Up until the end of April, trade had been better than ever before in the store's history, but in May there appeared to be a slight falling off in the demands of its customers. Consequently, the stocks had not been filled in by new orders for merchandise since the end of April.

Early in the spring of 1920, however, the buyers of the Howlett Department Store had gone to New York to purchase merchandise for the coming season. Because of the favorable outlook, due to the increasing sales in the winter season, these buyers

had placed orders or 25% of their requirements for the spring and summer. Large amounts of staple merchandise had been purchased in Chicago, and fill-in orders had been placed with wholesalers in Spokane. As a result, by the end of May the store had large stocks of merchandise on hand in almost every department and the managers were in a quandary as to what policies to pursue.

Questions

1. On the first of June, 1920, what buying policy for piece goods, both as to amount and sources, should have been adopted by the Howlett store?
2. Should the same policy have been followed in the ready-to-wear departments?
3. What price policy should have been put into effect for the entire store?

General Administration 66

Ranson Shoe Store—Cancelation of Orders

In the fall of 1919 there was an active demand in the shoe trade generally. The sales of the average shoe store where unusually heavy and new merchandise was being offered by manufacturers and wholesalers at an increase of from 20% to 40% over the previous year's price. Many of the stores had difficulty in securing deliveries and shoe salesmen were predicting a tremendous shortage for the coming season.

Mr. Robert Ranson operates a shoe store, handling men's, women's, and children's shoes in a large Missouri city. Normally he purchases from 25% to 30% of his needs at the beginning of the season. In the fall of 1919 he found, however, that numerous other retailers were placing orders for 100% of their spring requirements. Some of them were even duplicating orders with manufacturers in the expectation of receiving only part

of the merchandise ordered as had often been the case during the past year. Business had been unusually good and the trade papers predicted still greater increases in the wholesale price of shoes. After his experience of the past season, when he was unable to fill many of his customers' orders, because he had not received the shoes he had expected from the manufacturers, Mr. Ranson decided to place orders for the full amount of his spring requirements and to give duplicate orders to other manufacturers for some merchandise to insure his having adequate stocks.

For the purpose of financing these orders Mr. Ranson went to his banker the first week in January to secure a loan, submitting the following balance sheet for January 1, 1920:

Assets	
Current	
Cash on Hand and in Bank	$ 5,660.34
Notes Receivable	900.00
Accounts Receivable (Customers)	48,095.48
Net Inventory of Merchandise	219,627.62
United States Securities	5,000.00
Other Assets	
Other Assets	15,222.74
Investments	55,251.75
Deferred Charges	
Prepayments	4,103.71
Net Inventory of Supplies	642.79
Permanent	
Real Estate	111,204.27
Leasehold	33,889.36
Net Inventory of Equipment	17,186.87
	$516,784.93
Liabilities	
Current	
Notes Payable	$135,000.00
Accounts Payable (Merchandise)	110,211.13
Accounts Payable (Sundry)	111.10
Accrued Items	41,158.24
Other Liabilities	
Common Stock—Issued	112,300.00
Undivided Surplus and Profits	118,004.46
	$516,784.93

Mr. Ranson explained to the banker that he had a large number of outstanding orders covering his entire needs for the coming season, which he had placed early on account of last year's experience. The banker stated that with the rising discount rates he did not see how it would be possible to finance all the spring business that so many retailers had booked ahead; and in view of the poor net quick condition of the business as shown by the financial statement, he could not increase Mr. Ranson's loan.

Without an additional loan, Mr. Ranson would be unable to take his cash discounts, and unless his sales volume was exceptionally high, he would not even be able to meet these bills when due; consequently, he was considering the advisability of canceling at least a part of his orders. He was very much opposed to doing this, however, as he had never taken such a step before. Moreover, many of the manufacturers would be unwilling to accept cancelations, since they had probably begun work on some of his orders. Naturally, if he tried to cancel under these conditions he would arouse their ill will and in the future might not be able to secure shipments of popular lines of merchandise on which a shortage had developed because of the unforeseen demand.

Questions

1. Should Mr. Ranson have canceled his orders?
2. How should he guard against similar financial difficulties during future business crises?

General Administration 67

Connelly Department Store—Credit Policy in a Business Cycle

In 1919, when retail trade was brisk, the Connelly Department Store increased the amount of charge sales from 46.7% of its total sales volume at the beginning of the year to 51.2% at the close. Notices were posted in the elevators stating that the store would be glad to open accounts for its customers and suggesting that any of its clientele who desired credit could arrange the matter by calling at the credit office.

The collection policy of the store was also lenient. If a customer failed to pay her bills promptly, but was considered able to meet her obligations, the store often took no other action beyond sending her monthly statements of the amount due. During each month the credit manager usually collected about 42% of the past month's bills, letting the others run, unless there was evidence that an account was becoming a doubtful risk. During this period accounts ran about 2½ months, on the average, before being collected.

The credit manager justified this practice on the ground that a liberal credit policy brought more business to the store. He stated that the sales volume in 1919 had increased 18.3% over the previous year, and, although a part of this increase was undoubtedly due to higher priced merchandise, in his opinion the actual increase in the number of customers was due largely to the store's credit policy. He pointed out that the firm had never written off as bad debts more than 1% or 1½% of its charge sales. He also asserted that when a liberal credit policy was adopted in times of prosperity the percentage of loss from bad debts did not increase in the same proportion as the increase in the number of accounts.

In the opinion of the credit manager, a department store, in order to grow, must increase the proportion of its charge sales as its size increases. In support of this statement he quoted the Bureau of Business Research of the Northwestern University School of Commerce, which stated in its report on the Retail Distribution of Clothing:

> The charge sales in retail clothing stores are closely connected with the net sales. . . . When the entire series of stores is considered,

the tendency for the amounts of charge sales per $100 of total net sales to increase with the size of the store is unmistakable.*

Although the credit manager admitted that this study did not cover department stores, he said that the Connelly store specialized in men's, women's, and children's ready-to-wear clothing, and that if his firm was to hold its own with competition it would have to increase the amount of its charge sales, particularly in times of prosperity when new accounts were easy to secure and people usually had money with which to meet their bills.

In periods of depression, however, the policy of the Connelly store is to curtail the granting of credit and to become more exacting in its collection policy. In the summer of 1920, for example, the board of managers issued orders that the credit notices in the elevators were to be removed, that no new charge accounts were to be opened unless urgently requested, and that present accounts having any uncertainty as to collection were to be discontinued. The credit manager was ordered to be more strict in making collections, and to secure payment of at least 50% of the accounts each month.

The managers said that customers sometimes had the mistaken idea, particularly in times of depression, that if an account was paid eventually the store should be satisfied. They failed to realize that the cost of collection of delayed payments was often great enough to wipe out all the profit from that account. Furthermore, if one out of 10 customers failed to pay his account, the loss from this one might wipe out the profit from the other nine. Consequently, in times of depression when a number of customers might be short of funds the managers of the Connelly store preferred to grant credit to as few customers as possible.

Recently a prominent manufacturer made the statement that in his opinion a liberal credit policy in times of prosperity and a curtailed credit policy in times of depression only added to the intensity of the stress and strain on business which existed at certain periods in the business cycle. This man said that granting liberal credit terms in times of prosperity permitted customers to buy more merchandise than they really needed and therefore encouraged them to live beyond their means, just as

*Page 58, Vol. 1, *Clothing Survey*, published 1921 by the Bureau of Business Research, Northwestern University School of Commerce.

in the case of a manufacturer when a liberal credit policy permitted him to overexpand his business. Furthermore, he said, in times of prosperity when wages are high and there is little unemployment in the country, people have money with which to meet their expenses and there is no necessity for opening charge accounts. If a curtailed credit policy should be adopted in such a period the company would have its working capital to use in expanding its business instead of having it tied up in accounts receivable and being forced to borrow from the banks at high rates of interest.

On the other hand, this manufacturer asserted, the time of depression when most firms curtail their credit policy is the period when people lack money and need credit. Moreover, as soon as the first part of the stress of hard times is over, interest rates usually begin to decline, so that a company can borrow money at lower rates. If a corporation adopted a liberal credit policy in such a period many people would open accounts and give the firm their trade. By following this practice a company would increase its sales not only in periods of prosperity, but in periods of depression as well.

Question

Would it be advisable for the managers of the Connelly Department Store to adopt the credit policy proposed by this manufacturer?

General Administration 68

Parker Department Store—Reduction of Operating Expenses

In order to increase the profits of the Parker Department Store the members of the firm have attempted to reduce operating expenses to a minimum. Their first step was to go over the expenses of the past year with the idea of choosing items on which the expenditures could be cut down. This survey brought about some reductions, but as a whole the savings were not as large as had been expected.

The directors then decided that the group of operating expenses under consideration ought not to exceed 25% of the net sales of the store if the company were run on a more efficient basis. Working back from this hypothesis they decided that it ought to be possible to reduce expenses $65,000 from last year's figures. In order to insure this amount of saving an expense control sheet was drawn up and no department was allowed to exceed its expense budget. The largest item of expense was that of the payroll which amounted to almost one-half the total operating expenses of the firm. It was decided that this item ought to be reduced by approximately $31,000, since the reductions in the amounts spent for supplies and other items had already taken care of the balance of the $65,000 saving which had been planned.

The first step in paring down the payroll expense was to curtail the number of employees. To do this, the heads of the different departments were consulted on the number of salespeople they would need for the fall season and reductions were made accordingly. For example, the head of the men's furnishing department decided that he would need seven salespeople in September, seven in October, eight in November, twelve in December, and seven again in January. The payroll of this department was reduced on an average of $190 per month by this means. Other departments in the store were treated in a like manner.

The directors were convinced that no salary reductions should take place, since such a step would tend to destroy the spirit of the organization. Although competitors had made wage reductions of as much as 10%, the Parker Store did not reduce

the salary of a single employee, since the managers were sure that many salespeople would rather go elsewhere for a lower wage than to remain and take a reduction in pay.

It was necessary, however, that the store as a whole should be placed on a lower wage scale. Under these conditions, such a saving could be brought about only by bringing in new employees. The next step, therefore, was to scrutinize the efficiency reports and records of each individual with the idea of discharging the more inefficient. Because of the large number of unemployed in the city at that time, it was possible to fill these positions readily with more capable workers at lower wages. For example, a girl in the office getting $20 a week had considerable difficulty working in harmony with the rest of the office employees. Consequently, she was given two weeks' notice and another girl hired in her place to do the same work at $16.50 a week.

Some of the people who were discharged told the personnel director that they had worked for the firm a number of years, that they needed the money that their work with the Parker Department Store paid them, and that they would be unable to get employment elsewhere. The employment manager brought several of the extreme cases to the attention of the board of directors in an attempt to have some of the employees reinstated. He was told, however, that the operation of a department store was a "cold-blooded proposition" and that it was necessary to discharge inefficient people if the store were to show a profit. He was also told that the new employees who were being brought into the organization needed the money fully as badly as those who were being discharged and that the directors could not grant the exceptions that he had asked.

The directors then made a study of the duties performed by the average salesperson. They found that the peak load usually occurred between 11:30 a. m. and 1 p. m., just at the time when most salespeople were out to lunch. The store had been closing at 5:30 p. m. After discussing the plan with the salespeople, it was decided that every employee would take only a half-hour at lunch time and that the store would close at 5 o'clock. It was also arranged that one-half the salespeople should go to lunch at 11 o'clock and the other half at 1 o'clock. By this means the entire sales force would be on duty during the rush hours of the day.

It was also decided to adopt the policy of other department stores in hiring part-time workers. For this kind of work high school girls and married women, with previous selling experience were employed. These salespeople were on duty at some time during the period from 11 a. m. to 4 p. m. each day, and on Saturday an additional number were employed for the entire day. These part-time workers naturally received smaller wages than those who were on duty for the full time.

It was found after the new plan had been in operation several months that many department heads still overestimated the number of salespeople required for each month. It has been proposed, therefore, to make a study of each department in an effort to determine the total monthly sales that should be made by each employee. With this data available it is thought that it will be comparatively easy to make a more reliable estimate as to the number of salespeople required in each department by dividing the total sales volume for any month by the standard monthly sales that should be made by each employee.

One of the department managers in conference pointed out, however, that it is much easier to make sales in certain months than in others, and that at the end of the season it requires a great deal more time for a salesperson to close a sale than at the height of the season. Furthermore, in a falling market the total money value of the sales per department might fall off at the same time the actual number of units sold was increased. Consequently, if this system were used without modification a smaller number of salespeople would be apportioned to a department than normally, although in reality an increased number of employees would be required to handle the increased number of sales.

Questions

1. How should the directors of the Parker Department Store determine the number of salespeople required for each department?

2. What changes would you have suggested in the program of a reduction of operating expense?

General Administration 69

Crawford Company—Advertising Policy in a Falling Market

In an answer to the statements made by the Federal Trade Commission, and to accusations made quite generally by the public, a store in New York published a full-page advertisement on May 2, 1921, listing the present price of hundreds of articles as compared with the price on May 1, 1920. The reduction in every case had been substantial and in some cases sensational. *Printers' Ink* in an editorial on May 5, 1921, page 164, said:

> No more effective rebuttal than this could be given to the argument that retail prices have not come down. What we need is more advertising of this kind. The public is now more interested in prices than anything else. Then give the people what they are looking for. An advertisement that does not contain a price these days is incomplete, to say the least.

The Crawford Company, a large department store in a middle-western city, has received many complaints from local newspapers, associations, and the public in general, to the effect that retail prices in that community have not decreased. A buying boycott on the part of the consumers has even been suggested. The proprietor of this store is very much interested in the New York advertisement, and in reading it over finds that in many cases his prices are below the prices quoted in the advertisement, as of May 1, 1921.

This merchant is confronted with the problem of how he can have the public reach a better understanding of the situation.

Question

What should he do, from the point of view of publicity, as well as sales promotion, price comparisons, and general policy?

General Administration 70

Peabody Company—Price Policy in a Rising Market

J. H. Peabody is a haberdasher in a small town of central New York. He has been in business for about 20 years and has a reputation for conservative merchandising. The annual volume of his business does not exceed $60,000. During the period of rapidly rising prices in 1919, this store had many lines of goods in stock which had been purchased at wholesale prices much lower than those prevailing at that time. The volume was mounting rapidly, and the store was having difficulty in getting delivery of goods ordered. Although there was much talk against profiteering in the air, consumers appeared to be glad to get merchandise at any price. Mr. Peabody had always followed the policy of pricing his goods on replacement value. At this time, however, the difference between what much of his merchandise had cost him and the wholesale prices then being quoted was so great that Mr. Peabody began to feel that perhaps he was not dealing fairly with his customers. About this time, Howard Figg, special assistant to the Attorney General in charge of the information of the Lever Act, owned that the Department of Justice would consider merchants who had based retail prices on replacement values liable to prosecution under the Lever Act as profiteers. This practically convinced Mr. Peabody that he was following the wrong policy. He consulted his lawyer, however. He was told that there was every probability that the highest courts would not back up Mr. Figg's interpretation of the Lever Act. Nevertheless, Mr. Peabody felt that entirely aside from the legal phase of the situation, public welfare demanded that retailers in general should not take full advantage of the rise in replacement values on goods purchased at lower prices. He consequently marked all the goods in his store strictly on original cost prices.

Question

What arguments are there for and against the policy adopted by Mr. Peabody?

General Administration 71

Ralph Wall Shoe Stores—Methods of Reducing Prices in a Falling Market

In the summer of 1920 the Ralph Wall Shoe Stores, a chain of 25 retail stores in cities of the East, were confronted by the critical situation resulting from a falling market. Prices far above current replacement value had been paid for all the shoes then in stock. It was, moreover, becoming increasingly difficult to move this merchandise. Consequently, though the executives of the company believed that the figures at which they were offering shoes to the public were moderate, in view of the quality, it was felt that only drastic reductions in line with receding replacement values could stimulate trade. The various store managers were asked to submit proposals to meet the exigencies of the situation.

Two schemes were proposed: according to the first, shoes selling at \$12 and \$13 would be sold for \$10; those selling at \$14 and \$15, for \$12; and those at \$16, \$17 and \$18, for \$14. According to the second scheme, all shoes were to be sold at a flat price of \$12.

The average Ralph Wall Store maintained a stock of 20,000 pairs. Of these, 13% were priced at \$12, 26% at \$13, 30% at \$14, 17% at \$15, 9% at \$16, 4% at \$17, 1% at \$18. This footwear was of high grade, but not quite up to the standard of the very best makers of the country. The business always had been run on sound, conservative principles.

Question

Which scheme should the company have adopted? Why?

E. OTHER ADMINISTRATIVE PROBLEMS

General Administration 72

McCormack Shoe Company—Contributions by Store Managers

The McCormack Shoe Company operates 32 shoe stores in southern Wisconsin and northern Illinois and Indiana. These stores carry medium and low grades of merchandise with an average yearly sales volume of $45,000 per store.

Since this company maintains a policy of centralizing all accounting work in the home office and of requiring the store managers to send in daily reports, the store managers can give all their time to selling shoes.

This company has a rule that when any organization appeals to the store manager for contributions for any purpose, he must fill out a form showing that the organization applying has the sanction of the local chamber of commerce. Before any money can be given, this statement must be forwarded to the home office for action by the general manager. Many of the store managers object to this policy, because they feel that the home office does not appreciate local conditions and demands.

Mr. Gregory, one of the store managers in a city of 60,000 population in northern Illinois, is a member of the local chamber of commerce. This organization recently proposed to raise a fund to help advertise the city and to draw trade for the benefit of all the merchants. When this manager was approached by an agent of the chamber of commerce, he had to explain that no contributions could be made except by the central office of the company. The usual form was made out and sent to the home office. The general manager, however, was just then anxious to reduce expenses in order to make a good showing for the period, and therefore he turned down the application for a contribution. When the fact became known, a number of prominent citizens refused to trade with the McCormack Store, saying that if this company was too close fisted to help the city, they could find other shoe stores. At the next meeting of the store managers Mr. Gregory lost no opportunity to air his grievance. As a result the store managers finally got up a petition requesting the company to permit all of them to make contributions to local

organizations without going through the red tape of referring all such requests to the home office.

Question

What action should be taken by the board of directors on this petition?

General Administration 73

C. E. Marchmont and Company—Scientific Management in Department Stores

The department store of C. E. Marchmont and Company sold in 1920, \$15,073,968.72 worth of merchandise. Of these sales 32% was delivered, and of the goods delivered 79% was carried in the store's own equipment, 15% by parcel-post, 4½% by special messengers, and 1½% by other means.

The store has no restaurant and no grocery department. It specializes in ready-to-wear clothing for both men and women, and in 1920 sales in the ready-to-wear departments amounted to 20% of the total business. The dry goods department did 10% of the business, and the furniture department 3%. The store's bargain basement, which had been in operation for four years, sold 11% of the total merchandise. Marchmont's has followed the policy of filling mail orders that come in, but of not encouraging shopping by mail. In 1920 a little over 1% of its business came in this way.

An idea of the size of the store may be gained from the fact that in 1920 the wages of the sales force were \$897,123.60. This sum included the salaries, commissions, and wages paid to the regular and extra sales force and to stock clerks in the selling departments. It included also salaries, commissions, and wages paid to sales managers and assistants, floor managers and assistants, and buyers and assistants proportionate to time spent in selling. The wages of non-selling help during 1920 amounted to \$1,274,754.09. This item included the wages of cashiers, examiners, bundle girls, mail and telephone order workers, as well as those of the receiving, marking, stockroom, delivery,

publicity, occupancy, and office help. Administrative executives were paid salaries aggregating $62,000.

Early in the spring of 1921, the attention of Mr. C. E. Marchmont, a member of the firm, was directed to an article which appeared in *System* for August, 1919. This article, written by Mr. Merrill W. Osgood, of the Jordan, Marsh Company, Boston, described how in one department of the Jordan, Marsh store a scientific study of the work had enabled the firm to do more work with fewer employees and to pay them higher wages than before the study was made. The following quotations from the article give the gist of the facts set forth:

Before we reorganized it, our bundle-wrapping department employed an average of 45 people in two packing rooms. A girl who wrapped 100 bundles a day was making a good record. Today 16 girls do the work in one packing room; and many of these girls put 50 cents a day extra in each of their pay envelops by wrapping 300 bundles. The girl who holds the bundling record at present has wrapped over 400 parcels on several days and has maintained a weekly average of 350.

The girls, when they enter our employ, learn in our vocational department a definite and uniform method of bundling. There they have a model wrapping section, outfitted exactly like the working department, and have actual merchandise to handle. A girl does not have to be taught "on the job"; she knows exactly what to do, how, when, and where to do it, the very first day she starts to work. And she attains speed with practice.

The girls are paid $10 a week their first year, and $11 the second, and a graded daily bonus as follows:

Class A, small bundles: 200, 15 cents; 250, 35 cents; 300, 50 cents.

Class B, large bundles: 120, 15 cents; 150, 35 cents; 175, 50 cents.

A large production chart hangs in the department—a star is placed on this chart each week for the bundler who holds the highest average for the week. At the end of the month we give one day off with pay to the girl behind whose name appears the largest number of stars; the girl in second place has half a day. Thus a girl can add $3 a week to her pay and gain a holiday by her own effort.

The "close-up" photograph of the bundling stalls, which appears on page 238, gives an excellent idea of their arrangement. (Photograph not reproduced here.) At the left of each girl is the bin from which she takes the bags containing merchandise to be wrapped—left there by the messenger who distributes them. Below is the bin into which the wrapper drops the emptied bag. At the end is the bin of wrapped parcels. At the right stands the rack of boxes, the sizes most used nearest at hand. The "box girl" keeps these racks and trays always filled. She tests each box before putting it in the rack; if the wrapper finds a broken carton, the box girl loses her bonus for the day.

Paper is arranged conveniently in the desks; the size most frequently needed is on the desk itself. Tissue paper is hung on the partition at the left. At the right, where the "reach" is easiest, stands the glue pot for pasting labels, the gum tape, the wrapper-identifying stamp, and the twine cutter. The racks above the desks hold clasp envelops, twine and shoe boxes.

Bonus checks are in a handy little pile on the desk. These are small yellow tickets bearing the packer's number, which are slipped under the cord of the completed package and are removed by the examiner, who sends them to the department where the bonus records are figured.

The bundling procedure is taught in eight main operations; there are nearly 200 motions in the process, surprising as it may seem.

If the bundle girl finds an error in goods or price, she puts the merchandise back into the bag and hangs it on the "error hook" at the end of the bundle bin. These bags are collected every hour by the "error girl," taken to the floor superintendents for adjustment, and returned an hour later to the girl who discovered the error.

If the bundle girl discovers no errors, she wraps the package by the method she has been taught as best adapted to the particular wrapping problem facing her. She comes to know almost by instinct whether her problem calls for a box or an envelop, whether the box may travel unwrapped or wrapped, whether she should use twine or tape.

One fact in particular has made this department such a success in saving overhead; a bundle girl does nothing but wrap bundles. The wrapping department has 10 wrappers and 6 "service employees."

Early each morning the box girl and two supply girls see that every desk has its complete equipment. If a wrapper finds her glue pot empty, the supply girl loses her bonus. She receives 20 cents extra each day that she does her work correctly. The girl who collects the empty bags and the box girl always travel up and down the left-hand side of the aisle; the girl giving out the work uses the right. As the department is small, this route system had to be worked out with the greatest care.

All the Details are Planned to Work "Just So"

One girl gives out the work as she wheels her basket truck through the department from the foot of the bundle chute. Another member of the force collects the empty bags, inspects them for condition and sees if any article has been left in them. She then puts 25 bags into one bag and returns them to the bag-supply room. She works on a time schedule, and receives a bonus for accuracy.

The error girl, like the other employees in this department, works on a bonus.

It is noteworthy that all departments which feed this central wrapping division are operated on the same type of carefully worked-out schedules and bonus systems. The employees also receive a bonus for perfect time schedules and careful work. For example, the parcel collectors, who go from department to department, make trips every 20 minutes

with wheel trucks. They empty their loads into the main chute from which parcels reach the main belt, where they are sorted and sent down the central wrapping chute.

Everyone who has anything to do with the wrapping division has a chart hanging on a small board before her. This tells exactly what she has to do; when, where and how she has to do it; how long she may take to accomplish it; and the bonus that will be added to her pay each day that she carries her part of the schedule.

Mr. Marchmont had never been thoroughly convinced of the practicability of time and motion studies, so-called efficiency work, and the Taylor System of scientific management as applied in factories. He had never come into immediate contact with the application of any of these new ideas, and he had been inclined to consider them the work of impractical theorists. When this article was brought to his attention, however, it interested him, especially because in going over his reports of the year 1920, he had thought that the cost in the non-selling departments was too high. Also it seemed to him unreasonable that the non-selling departments of a business should require roughly 50% more wages than the selling departments. Accordingly, Mr. Marchmont determined to write directly to Mr. Osgood of Jordan, Marsh's for further details with regard to the situation in that store before the study was made with regard to the cost of making the study and of making the changes which seemed advisable, and with regard to the savings effected. Mr. Osgood in replying to Mr. Marchmont's letter, said that the Jordan, Marsh Company had established the central wrapping system for "send" parcels some years before the study in question was undertaken; two central wrapping rooms had been established, one on the third floor, and one in the basement. Together these two wrapping rooms had employed 45 people. The basement room especially had seemed to be poorly laid out. Wrappers had selected the parcels on which they were to work from a long table down the center of the room, and the smaller parcels had always been selected first. Boxes had been piled hit or miss on a shelf in front of the wrappers, and frequently a wrapper had been obliged to leave her place and walk the length of a crowded room to get a box of the size she wanted. Under these conditions 125 bundles a day had been the record. The job had been one of the most unpopular ones in the establishment, and it had been seldom that a girl kept at the work more than four or five months.

Mr. Osgood said further that in investigating the wrapping problem to determine how improvement could be made, 4 men had worked 2 months, using the common time and motion study methods used in factories. They had analyzed the operations of wrapping into 8 major operations involving some 200 motions and had determined the proper way of making each of these motions. Some idea of the type of work they did is given by the following operation sheet enclosed by Mr. Osgood in his letter, which lists the steps in the process of wrapping a bundle:

OPERATION 1—BAG

(*A*) With one hand drop last bundle in box, with other obtain full bag.
(*B*) Opening bag, lay on counter, neck towards you. Open neck, take by lower corners, shake until empty.
(*C*) Without turning head or body, throw empty bag into compartment.

OPERATION 2—CHECKING

(*A*) Read first item on slip. Check quantity. Check price with tag.
(*B*) Fold piece neatly in form to go in container.
(*C*) Read second item, etc. Place all in neat pile.

OPERATION 3—TICKETS

(*A*) Stamp number on both sections of ticket.
(*B*) Tear off auditing office slip if paid sale.
(*C*) Tear off bundle ticket. Lay on counter at right with charge slip.
(*D*) Place other slip with goods.

OPERATION 4—CONTAINER

(*A*)	Box	Determine by pile size, and by rules, kind of container. Obtain, remove cover. Unfold paper flaps. Place a piece of tissue in box, edges over side. Put goods and ticket in. Replace cover. Wrap.
(*B*)	Corrugated	Obtain, lay on counter smooth side up. Lay goods on extreme left edge. Cut right side with point of knife to fit goods. Roll near edge over. Then far edge. Grasp bundle with left hand. Lift. Lay paper on counter with right hand. Put bundle on paper. Wrap.
(*C*)	Envelop	Obtain, insert goods. Fasten.

OPERATION 5—WRAPPING

Place wrapping paper on counter. Place box on paper. Fold near edge over box. Press left edge down. Turn near edge in. Turn end edge up. Place against body. Other end the same. Hold with left hand. Reach for string with right.

Operation 6—Tying

(*A*) With right hand reach for string.
(*B*) With left take end.
(*C*) Under box with right hand.
(*D*) Take short end with right hand, pass over and under furthest line and draw string, making slipknot.
(*E*) With right hand draw long end of string, making slipknot tight.
(*F*) With right hand around box in opposite direction to meet original knot, cut string two inches beyond knot.
(*G*) Make two slipknots to finish.

Operation 7—Labels

(*A*) Reach glue brush with right hand.
(*B*) Two strokes of brush on corner of box.
(*C*) Put brush back.
(*D*) Put label on with both hands.
(*E*) Lay charge slip on counter. Fold lower edge to upper. Repeat twice. Fold so that edges meet over string. Pin on.

Operation 8—Next Bundle

(*A*) Place bundle in rack with one hand, reach for next bag with other at same time.

Tape Machine

Pick up box with left hand, place under feet of machine, press lever with right hand until gummed-paper tape extends just over cover of box (about ¾ inch). Press end to cover with *left thumb*, with right hand curl tape around end of box, holding cover on tightly. Repeat with other end.

Charge Slip

Fold charge slip three times as directed above. Lay flat on bottom of box. Lay a strip (about 3 inches) of gummed tape over slip and fasten ends of tape to box.

In order to place the wrapping department on a scientific working basis, it had been necessary to make similar studies and introduce similar improvements in the departments feeding the central wrapping room. Accordingly, subsidiary investigations had been carried on in the salvage department, a part of the receiving room, and among the parcel collectors. The study among the parcel collectors had resulted in improved methods of scheduling work and paying wages. The investigation in the salvage department had made it possible to improve the method of collecting boxes, paper, and similar supplies from goods unpacked in the receiving room and had resulted in better

methods of storing and issuing these supplies from the salvage department.

In the central wrapping department an important feature of the new methods introduced had been the separation of the service functions from the wrapping functions, in order to permit wrappers to specialize on their work. To supply them with sufficient materials, five service employees had been needed. One girl had done nothing but give out work, distributing bags containing parcels to the wrappers. Another had done nothing but give out boxes to the wrappers. A third had been in charge of adjusting all errors which the wrappers found. The fourth had taken care of the empty bags as described in SYSTEM, and a fifth, assisted by the department head, had examined the work after the wrappers had finished.

Mr. Osgood said that the total cost of the investigation, including the wages of the people engaged, clerical expense, and the cost of making physical changes in the plant, had been placed by the Jordan, Marsh Company at not over $5,000. As a result of this expenditure the Jordan, Marsh Company had made savings as follows:

Wages of wrappers	$12,500 each year
25 employees at $10 a week eliminated	
Supplies	15,000 each year (estimated)
Wages of porters	1,800 each year
2 porters at $18 a week eliminated	
	$29,300

In addition, the floor space used by the third floor wrapping room had been released for other purposes, and the floor space occupied by the basement wrapping room had been cut in half.

Mr. Osgood also said that the benefits in health and satisfaction to the workers had been great. Workers who had been in the department for nine or ten months had acquired a degree of skill which had made it practically certain that they would earn their bonus day after day under normal conditions.

Upon receiving this letter from Mr. Osgood, Mr. Marchmont presented it, together with the article in SYSTEM, at one of the monthly meetings of the directors. One of the directors, a man who had long been financially interested in several factory

enterprises, was plainly much in favor of the introduction in the Marchmont store of these methods borrowed from factory management. He pointed out that a factory employing from 150 to 250 people gives, if well managed, considerable attention to the methods which it uses. Why then, he argued, should not a store employing 300 or 400 people begin to think of the methods used in its non-selling departments; that is, in its departments which are essentially production departments, and, if a small store should give this attention to its methods, why should not a store like Marchmont's, employing approximately 1,800 people? In the smaller store, he said, this creative work, which in a factory is normally in the charge of the production manager's office, would probably be done by an assistant in the office of the general manager or general superintendent. This assistant very probably would handle only details, the larger responsibilities being shouldered and the initiative furnished by the general manager or the general superintendent. In a store as large as Marchmont's, however, the director was of the opinion that it might be valuable to set up a separate office with a technically trained man in charge. This office might be a staff office under the immediate control of the general manager, or it might be an intermediate office between the general manager and the various department managers under him. In this latter case in matters of management and policy, lines of authority and responsibility would run directly from the general manager to his department managers, but in matters of production, system, and method, lines would run from the general manager through this new office to the department managers.

Question

What steps, if any, should the directors of the Marchmont store take to introduce methods similar to those employed by Mr. Osgood in the various departments of their store?

(*a*) In what departments?

2. What advantages and disadvantages would accompany the introduction of these methods in each case?

*For further information upon the question of placing this new technical man in the organization, the student is referred to the problem of the Endicott, Andrews Company, upon the organization of administrative departments. This problem is printed on page 277, in the section on Organization.

APPENDIX

APPENDIX

THE following forms show the results of the investigations of the Harvard Bureau of Business Research in operating expenses in various types of unit stores. The explanation of these figures is in each case given in a bulletin issued by this Bureau. These bulletins are for sale and a price list of all bulletins can be obtained by addressing the Harvard Bureau of Business Research, Kirkland Street, Cambridge, 38, Mass.

A reproduction of the forms used in the Harvard System of Stock-keeping for Shoe Dealers is also included. The explanation of these forms can be found in Bulletin No. 7 of the Bureau of Business Research.

Stock Number..................................
Date..................................
Taken by..................................

HARVARD SYSTEM OF STOCK-KEEPING FOR SHOE RETAILERS

SIZE-UP SHEET (Form 7b)

KEY

1	
2	3

1. On Hand
2. On Order
3. Due

	Size	Size	Size	Size	Size	Size	Size	Size	Size	Size	Size	Size	Size	Size
AA														
A														
B														
C														
D														
E														
EE														

Form 7b. Supplement to Vol. II, No. 4. Publication of the Graduate School of Business Administration, Harvard University — 1916

FORM No. 93

I. OPERATING EXPENSES IN RETAIL SHOE STORES IN 1919

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	4.79%	14.91%	8.3 %
PM's	......	3.29	0.5
Advertising	0.03	7.85	1.3
Wrappings and Other Selling Expense	0.05	1.17	0.2
Total Selling Expense	5.05	17.5	10.3
Delivery Expense	......	1.75	0.3
Buying, Management and Office Salaries	0.55	9.68	4.2
Office Supplies, Other Buying and Management Expense	0.02	2.27	0.3
Total Buying and Management Expense	1.27	9.78	4.5
Rent	0.59	8.94	2.3
Heat, Light, and Power	0.11	1.98	0.5
Insurance (except on buildings)	0.07	1.72	0.5
Taxes (except on buildings, income and profits)	0.04	1.67	0.4
Repairs of Store Equipment	0.01	3.86	0.2
Depreciation of Store Equipment	0.03	2.48	0.3
Total Interest	0.45	8.49	2.9
Total Fixed Charges and Upkeep Expense	3.41	15.36	7.4
Miscellaneous Expense	0.07	4.79	1.1
Losses from Bad Debts	......	1.95	0.2
Total Expense	13.62	35.63	24.0

	Highest	Lowest	Common
Gross Profit	45.55%	19.27%	33.1 %
Net Profit (or Loss)	*Profit* 24.7	*Loss* 2.45	*Profit* 9.0

HARVARD SYSTEM OF STOCK-KEEPING FOR SHOE RETAILERS

SALES SUMMARY SHEET (Form 7a)

(FOR ONE HUNDRED STOCK NUMBERS)

Year......................................

Stock Number	Week Ending				Week Ending				Week Ending				Week Ending				Stock Number	Week Ending				Week Ending				Week Ending				Week Ending			
	Sales		Returns		Sales		Returns		Sales		Returns		Sales		Returns			Sales		Returns		Sales		Returns		Sales		Returns		Sales		Returns	
	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total		Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total	Tally	Total

Form 7a. Supplement to Vol. II, No. 4. Publication of the Graduate School of Business Administration, Harvard University — 1916.

HARVARD SYSTEM OF STOCK-KEEPING FOR SHOE RETAILERS

Description

CONSOLIDATION SHEET (Form 7c)

(FOR ONE STOCK NUMBER ONLY)

Stock Number..................

Make

Year beginning..............................19........

ORDER RECORD

KEY

1	2	3	4
5	6	7	8
9	10	11	12
13	14	15	16
I	II	III	IV

1–16 = Orders
I = On hand at beginning
II = Total bought
III = On hand at end
IV = Sales

Selling Price . . . .
Billed Cost . . . .
Profit . . . .; ....%
Discount . . . .%

	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE	SIZE
AA														
A														
B														
C														
D														
E														
EE														

RECORD OF RECEIPTS

Order No.	Date of Order	No. Pairs	Delivery Date	RECEIPTS					Order No.	Date of Order	No. Pairs	Delivery Date	RECEIPTS				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
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				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				
				Date									Date				
				Prs. Rec'd									Prs. Rec'd				
				Prs. Due									Prs. Due				

STOCK RECORD

	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month
ON HAND												
WEEKLY RECEIPTS (Pairs)												
Total Receipts — Month												
Returns (Pairs)												
Total On Hand, Receipts, and Returns												
WEEKLY SALES (Pairs)												
Total Sales — Month												
Total Sales to Date												

Form 7c. Supplement to Vol. II, No. 4. Publication of the Graduate School of Business Administration, Harvard University — 1916

II. OPERATING EXPENSES IN RETAIL JEWELRY STORES IN 1919 (REPAIRS SEPARATED)

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	4.3 %	14.6 %	8.5 %
Advertising	......	12.3	2.0
Boxes, Wrappings, and Other Selling Expense	0.2	2.9	0.9
Total Selling Expense	6.6	20.8	11.6
Delivery Expense	......	1.0	0.3
Buying, Management, and Office Salaries	2.3	17.4	4.9
Office Supplies, Postage, and Other Management Expense	0.1	1.9	0.6
Total Buying and Management Expense	2.6	17.4	5.6
Rent	0.8	10.7	4.0
Heat, Light, and Power	0.1	1.6	0.6
Taxes (Except on buildings, income, and profits)	0.02	2.1	0.6
Insurance (Except on buildings)	0.04	1.4	0.6
Repairs of Store Equipment	0.02	1.8	0.5
Depreciation of Store Equipment	0.03	2.0	0.5
Total Interest	0.9	12.1	4.6
Total Fixed Charges and Upkeep Expense	4.2	22.2	11.6
Miscellaneous Expense	0.2	4.6	1.9
Losses from Bad Debts	......	2.4	0.3
Total Expense	17.9	50.5	32.3

	Highest	Lowest	Common
Gross Profit	56.6 %	20.1 %	40.1 %
Net Profit (or Loss)	*Profit* 22.6	*Loss* 28.7	*Profit* 7.6

III. OPERATING EXPENSES IN RETAIL JEWELRY STORES IN 1920—182 STORES (SALES OF MERCHANDISE ONLY)

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	3.0 %	21.3 %	9.8 %
Advertising	......	10.9	2.0
Boxes, Wrappings, and Other Selling Expense	0.1	4.8	1.2
Total Selling Expense	4.5	24.9	13.0
Delivery Expense	......	2.1	0.3
Buying, Management, and Office Salaries	0.6	19.7	4.9
Office Supplies, Postage, and Other Management Expense	0.1	4.3	0.6
Total Buying and Management Expense	1.5	19.7	5.6
Rent	0.6	13.1	3.9
Heat, Light, and Power	0.2	2.4	0.7
Taxes (except on buildings, income, and profits)	0.01	2.7	0.7
Insurance (except on buildings)	0.1	4.3	0.5
Repairs of Store Equipment	0.02	2.7	0.2
Depreciation of Store Equipment	0.03	3.0	0.7
Total Interest	2.3	16.0	5.1
Total Fixed Charges and Upkeep Expense	6.1	26.4	11.8
Miscellaneous Expense	0.1	6.4	1.7
Losses from Bad Debts	......	3.1	0.3
Total Expense	17.3	56.4	32.7

	Highest	Lowest	Common
Gross Profit	56.1 %	17.4 %	39.1 %
Net Profit (or Loss)	*Profit* 21.1	*Loss* 34.3	*Profit* 6.4

IV. OPERATING EXPENSES IN RETAIL DRUG STORES IN 1919

Net Sales—100%.

	Lowest	Highest	Common
Wages of Sales Force	7.0 %	20.8 %	12.0 %
Advertising	0.04	4.0	0.7
Boxes, Wrappings, and Other Selling Expense	0.1	2.4	0.6
Total Selling Expense	8.5	22.5	13.3
Delivery Expense	......	3.8	0.1
Buying, Management, and Office Salaries	0.6	10.9	3.6
Office Supplies, Postage, and Other Management Expense	0.1	1.5	0.3
Total Buying and Management Expense	0.7	10.9	3.9
Rent	0.8	11.0	2.8
Heat, Light, and Power	0.2	2.4	0.8
Taxes (except on buildings, income, and profits)	0.03	2.2	0.4
Insurance (except on buildings)	0.1	1.4	0.4
Repairs of Store Equipment	0.03	4.1	0.2
Depreciation of Store Equipment	0.1	2.7	0.6
Total Interest	1.1	11.8	3.1
Total Fixed Charges and Upkeep Expense	4.3	16.5	8.5
Miscellaneous Expense	0.1	3.7	1.5
Losses from Bad Debts	......	2.4	0.3
Total Expense	17.7	42.9	27.6

	Highest	Lowest	Common
Gross Profit	50.1 %	20.6 %	34.0 %
Net Profit (or Loss)	*Profit* 19.4	*Loss* 6.3	*Profit* 6.3

V. OPERATING EXPENSES IN RETAIL HARDWARE STORES IN 1919

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	2.57%	15.8 %	6.2 %
Other Selling Expense	0.03	4.12	0.7
Total Selling Expense	3.02	15.8	7.0
Delivery Expense	......	3.22	0.7
Buying, Management, and Office Salaries	0.66	9.64	4.0
Office Supplies, Postage, and Other Management Expense	0.08	1.87	0.3
Total Buying and Management Expense	1.15	10.6	4.4
Rent	0.38	6.09	1.7
Heat, Light, and Power	0.06	1.35	0.4
Taxes (except on buildings, income, and profits)	0.04	1.14	0.5
Insurance (except on buildings)	0.08	1.02	0.4
Repairs of Store Equipment	0.01	1.11	0.1
Depreciation of Store Equipment	0.02	1.6	0.3
Total Interest	0.95	8.95	3.3
Total Fixed Charges and Upkeep Expense	3.07	12.68	7.0
Miscellaneous Expense	0.01	3.86	0.9
Losses from Bad Debts	......	6.8	0.5
Total Expense	11.42	36.3	21.0

	Highest	Lowest	Common
Gross Profit	41.08%	10.28%	27.1 %
Net Profit (or Loss)	*Profit* 17.35	*Loss* 4.88	*Profit* 5.8

VI. OPERATING EXPENSES IN RETAIL GROCERY STORES IN 1919

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	2.22%	10.54%	4.9 %
Advertising	0.01	3.0	0.2
Wrappings and Other Selling Expense	0.11	1.52	0.6
Total Selling Expense	2.98	11.60	5.9
Wages of Delivery Force	0.32	4.06	1.4
Other Delivery Expense	0.01	2.96	1.0
Total Delivery Expense	0.65	6.17	2.4
Buying, Management, and Office Salaries	0.69	4.85	2.0
Office Supplies, Postage, and Other Management Expense	0.01	0.91	0.1
Total Buying and Management Expense	0.99	5.25	2.1
Rent	0.17	4.19	1.1
Heat, Light, and Power	0.03	1.15	0.23
Taxes (except on buildings, income, and profits)	0.01	0.63	0.2
Insurance (except on buildings)	0.01	0.75	0.15
Repairs of Store Equipment	0.01	0.8	0.07
Depreciation of Store Equipment	0.01	1.27	0.27
Total Interest	0.33	3.66	1.0
Total Fixed Charges and Upkeep Expense	1.2	8.72	3.2
Miscellaneous Expense	0.05	3.26	0.5
Losses from Bad Debts	0.01	1.45	0.3
Total Expense	6.57	25.35	14.6

	Highest	Lowest	Common
Gross Profit	33.36%	6.99%	17.0 %
Net Profit (or Loss)	*Profit* 19.88	*Loss* 10.31	*Profit* 2.0

VII. OPERATING EXPENSES IN GENERAL MERCHANDISE STORES, 1918

Net Sales—100%

	Lowest	Highest	Common
Wages of Sales Force	2.1 %	13.08%	5.6 %
Advertising	0.03	1.79	0.3
Wrappings and Other Selling Expense	0.12	0.68	0.3
Total Selling Expense	2.37	14.16	6.4
Wages of Delivery Force	0.26	1.47	1.0
Other Delivery Expense	0.14	1.41	0.67
Total Delivery Expense	0.47	2.22	1.7
Buying, Management and Office Salaries	1.08	5.4	2.4
Office Supplies, Postage and Other Management Expense	0.12	0.7	0.2
Total Buying and Management Expense	1.27	5.4	2.8
Total Interest	0.54	4.95	2.2
Rent	0.49	2.9	0.9
Heat, Light and Power	0.06	0.74	0.3
Taxes (except income and buildings)	0.09	0.99	0.4
Insurance (except on buildings)	0.07	1.76	0.37
Repairs of Store Equipment	0.01	0.38	0.09
Depreciation of Store Equipment	0.05	0.77	0.3
Total Fixed Charges and Upkeep Expense	2.11	8.53	5.0
Miscellaneous Expense	0.07	0.98	0.3
Losses from Bad Debts	0.02	2.64	0.4
Total Expense	10.03	29.5	15.5

	Highest	Lowest	Common
Gross Profit	31.5 %	9.8 %	19.0 %
Net Profit (or Loss)	*Profit* 17.7	*Loss* 10.18	*Profit* 3.4

RECORD SHEETS*

Since the double-entry method of bookkeeping provides a check upon the accuracy of the accounts, the Bureau of Business Research urges its use. There are many retailers who, through personal preference or for some other reasons, are not prepared to keep double-entry books. For the convenience of these retail jewelers the record sheets described on the pages 1016, 1017 and 1018 are suggested. In addition to these sheets the jeweler will have records of his accounts with creditors and with customers.

On the Daily Record Sheet, the individual cash transactions of each day are recorded. This sheet is a substitute for a cash book and is recommended only for those jewelers who prefer it to an ordinary cash book. On the Monthly Record Sheet, the entries on the daily sheet are summarized day by day. There is one line for each day in the month, with a separate column for each item under Cash Received, Cash Paid Out, Accounts Receivable, Accounts Payable, Equipment, Expense, and all the other accounts. At the end of the month the totals of the columns give the results of the month's business.

The monthly totals on the Monthly Record Sheet are entered at the close of the month on the Yearly Record Sheet which has one column for each of the 12 months, and a final column for yearly totals. One of the special features of this yearly sheet is that it makes it easy to compare sales and some of the expense items month by month.

Daily Record Sheet

On the Daily Record Sheet cash received and cash paid out are entered. One sheet is used for each day. The left-hand side of the sheet is used for entering cash received, the right-hand side for cash paid out. The balance of cash on hand is recorded at the bottom. Under *Cash Received*, entries are made for each item of cash received except the individual cash sales of merchandise and cash receipts for repairing and engraving, which are entered as totals at the end of the day.

*Reprint from Bureau of Business Research, Harvard University, *Bulletin No. 15*, *Operating Accounts for Retail Jewelry Stores*, December, 1919.

Thus, if a customer settles his bill by sending a check, the customer's name is written on the first line, under *Cash Received*, and the amount received is entered in the *On Accounts* column. Another customer pays his bill in cash. On the next line his name and the amount are similarly entered. If the proprietor takes merchandise from the store for personal use, the value is included in cash sales for the day, either through the sales slip or cash register, and the amount at the same time is entered on the right-hand side of the Daily Record Sheet, the entry reading, "Proprietor (merchandise)," and the amount in the column headed *Expense*. Perhaps some old jewelry, gold or silver, has accumulated and is sold to a refiner; then on the fourth line is entered "Old gold and silver," and in the column headed *Other*, the amount received. In this column for *Other* receipts is also entered the amount received for equipment sold and for sundry receipts. Each item is listed so that the individual entries included in this *Other* column can be transferred to the proper column on the Monthly Record Sheet. At the end of the day each of these columns is totaled.

Total cash sales, as shown by the cash register, cash sales slips, or other means, is entered on the line designated. *Total cash received from repairing and engraving* is entered on the next line.

The sum of *Total "other" cash received*, *Total cash received on accounts*, *Total cash sales*, and *Total cash received from repairing and engraving* is the *Total cash received* for the day.

During the day money is paid out for expenses, on accounts, and for various items. The record of the money paid out is entered on the right-hand side of the Daily Record Sheet. To illustrate: A check is sent to a wholesaler in settlement of an account. On the first line, under *Cash Paid Out* the wholesaler's name is written and the amount paid is entered in the column headed *On Accounts*. The amount of the cash discount taken on the bill is entered in parenthesis after the wholesaler's name. Later in the day a check is sent for the rent. On the second line is entered "Rent," and the amount goes in the column headed *Expense*. Then a telephone bill is paid. On the third line is written "Telephone," and the amount is entered in the *Expense* column. For convenience, the cash paid out for labor, material, and other repairing and engraving expense is also entered in the *Expense* column.

The expressman delivers incoming merchandise which has been sent on a special order. This express charge is paid for in cash. Since this is not an expense, but a part of the cost of merchandise, the entry on the fourth line reads: "Express on incoming merchandise," and the amount is entered in the column headed *Other*. Cash is paid to a customer for merchandise returned. The entry for this transaction reads: "Returns and Allowances," and the amount is also entered in the column headed *Other*. Under *Cash Paid Out* in the column for *Other* are also entered the amounts paid for equipment and other sundry expenditures. Each item is listed so that the individual entries included in this *Other* column can be transferred to their proper columns on the Monthly Record Sheet.

The explanation of accounts given in the first part of Bulletin No. 15 and the index in that bulletin indicate under which heading each item is entered.

The sum of *Total "other" cash paid out, Total cash paid on accounts*, and *Total cash paid for expense* is the *Total cash paid out* for the day.

At the bottom of the Daily Record Sheet is entered first the amount of cash on hand (in the bank and in the store) at the beginning of the day. On the next line is entered the total cash received during the day—the total of the entries on the left-hand side of the sheet. These two items are added and the sum is entered on the next line. On the fourth line is entered the total cash paid out during the day—the total of the entries on the right-hand side of the sheet. On the next line is entered the amount of cash on hand (in the bank and in the store) at the end of the day. The sum of these two items, which is entered on the last line, should check with the *Total cash to be accounted for* already entered on the third line.

Monthly Record Sheet

For making entries on the Monthly Record Sheet the sheets are first arranged so that the page beginning with Cash Sales faces the page containing the Expense items. The page beginning with Cash Sales is on the left; the Expense page on the right. These two pages provide for a complete record for one month. Each line is for one day—thus the first line is for the first day of the month and the tenth line is for the tenth day, as

DAILY RECORD SHEET FOR RETAIL JEWELRY STORES

Date:

CASH RECEIVED			CASH PAID OUT			
	On Accounts	Other		Expense	On Accounts	Other
Total "other" cash received						
Total cash received on accounts						
Total cash sales			Total "other" cash paid out			
Total cash rec'd from repairing and engraving			Total cash paid on accounts			
			Total cash paid for expense			
Total cash received (today)			Total cash paid out (today)			

Cash balance at beginning of day (Bank $ Store $)	
Total cash received (today)	
Total cash to be accounted for	
Total cash paid out (today)	
Cash balance at end of day (Bank $ Store $)	
Total cash accounted for	

Form JD, Supplement to Bulletin No. 15, Bureau of Business Research, Harvard University — 1919.

FORM No. 96

MONTHLY RECORD SHEET FOR RETAIL JEWELRY STORES

Month .... Year ....

Day of Month	CASH RECEIVED					CASH PAID OUT							Cash on Hand	ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE			
	Cash Sales	Receipts from Repairing and Engraving	Cash Received on Accounts	Other Cash Received	Total	Expense	Cash Paid on Accounts	Cash Allowances	Inward Freight, Express, and Cartage	Cash Purchases of Merchandise	Other Cash Paid Out	Total		Charge Sales	Received on Accounts	Credit Allowances	Credit Purchases of Merchandise	Other Credit Purchases	Paid on Accounts	Cash Discounts Taken
	A	B	C	D	E	F	G	H	J	K	L	M	N	O	P	R	S	T	U	V
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31																				
Monthly Totals																				

MONTHLY RECORD SHEET FOR RETAIL JEWELRY STORES

Month.............. Year..............

Day of Month	EXPENSE														REPAIRING AND ENGRAVING			Sundry Receipts	Sundry Expenditures	Equipment
	SELLING			Delivery	BUYING AND MANAGEMENT		FIXED CHARGES AND UPKEEP						Miscellaneous	Bad Debts						
	Salesforce Wages	Advertising	Boxes, Wrappings, and Other Selling		Buying, Management, and Office Salaries	Office Supplies, Postage, and Other Management	Rent	Heat, Light, and Power	Taxes	Insurance	Repairs Equipment	Interest on Capital Borrowed			Receipts	Salaries and Wages	Supplies and Other Expense			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
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Monthly Totals																				

Form JM. Supplement to Bulletin No. 15, Bureau of Business Research, Harvard University, 1919.

shown by the numbers in the column headed Day of Month. On these two sheets are entered all receipts and expenditures that are made during the month.

The daily Cash Sales are entered in Column A. The cash received for repairing and engraving is entered in Column B, the cash received on accounts is entered in Column C, and the cash received for the sale of equipment or for sundries is entered in Column D. These are totals of the entries on the Daily Record Sheet. Column E, the sum of Columns A, B, C, and D is the total cash received for the day.

In the Cash Paid Out section entries are made at the end of each day from records on the Daily Record Sheet. The Total Cash Paid for Expense during the day, as shown on the Daily Record Sheet, is entered in Column F. The daily total of Cash Paid On Accounts, also shown on the Daily Record Sheet, is entered in Column G. The entries for the other columns are obtained from the individual entries on the Daily Record Sheet. A separate total is worked out from the Daily Record Sheet for Cash Allowances and entered in Column H; similarly totals are worked out for Inward Freight, Express, and Cartage, entered in Column J; and for Cash Purchases of Merchandise, in Column K. Cash paid for sundry expenditures, listed on the Daily Record Sheet, is totaled and entered on this Monthly Record Sheet in Column L. When the entry is made in Column L, an entry is also made in another column, according to the nature of the expenditure. If cash is paid out for equipment, for example, the amount entered in Column L is entered also in Column 20, Equipment. If cash is paid out for repairs to the building that the proprietor owns, the amount is entered in Column L, and, for convenience, is also entered, and circled, in Column 19, Sundry Expenditures. The sum of Columns F to L, the total cash paid out for the day, is entered in Column M. Column N is for Cash on Hand, shown on the next to the last line of the Daily Record Sheet. The entry for Column N on the last day of the month is the amount which is transferred to the Yearly Record Sheet. This column, of course, shows no total.

The next section is for Accounts Receivable—the amount due from customers for merchandise sold on account. In Column O the amount of the total Charge Sales for the day,

as shown by the charge sales slips or other records, is entered. In Column P is entered Total Cash Received on Accounts during the day, as shown by the Daily Record Sheet and by the entry in Column C. Whenever a bad debt is charged off as uncollectable and entered in Column 14, the amount is also entered in Column P. The total amount of credit allowed to customers for merchandise returned during the day is entered in Column R. If the business is strictly cash, Columns O, P, and R are not used.

The next section is for Accounts Payable—the amount owed to manufacturers and wholesalers for merchandise bought on account. In Column S, the total Credit Purchases of Merchandise are entered day by day. When a manufacturer or wholesaler gives the retailer a credit allowance for defective merchandise, the amount of this allowance is entered under Credit Purchases of Merchandise, Column S, and the entry circled to show that it is to be subtracted from the total purchases at the end of the month. When equipment is purchased on credit, the amount is entered in Column T, Other Credit Purchases. In Column U, Total Cash Paid on Accounts, as shown by the Daily Record Sheet, is entered. This is the same amount that is entered in Column G. Column V is for Cash Discounts Taken. The amount of cash discounts taken on each bill is entered in parenthesis on the Daily Record Sheet after the name of the creditor to whom payment is made. The total cash discounts taken during any one day for entry in Column V is easily determined from the Daily Record Sheet.

The other side of the Monthly Record Sheet provides columns for itemized expenses. The columns are numbered and also have headings to correspond to the items listed on the Yearly Record Sheet. Entries in these columns are made from the items that are listed on the Daily Record Sheet under cash paid out for expense. The sum of these entries, Total Cash Paid for Expense, is the same amount that is entered in Column F. For example, suppose that the Daily Record Sheet for the first day of the month shows that $80 was paid for rent and $2 for telephone. Then $80 is entered on the first line in Column 7, Rent, and $2 is entered on the first line in Column 13, Miscellaneous. If this is the only expense incurred for the day, these are the only entries for the day on this side of the Monthly Record Sheet.

On the tenth of the month, to give another example, suppose that the Daily Record Sheet shows that $30 was paid for salesforce wages, $15 for boxes, $6 for advertising, and that the proprietor took $10 in cash and $5 worth of merchandise for personal use. The $30 for salesforce wages is entered on the tenth line in Column 1. The $15 paid for boxes is entered on the tenth line in Column 3; and the $6, for advertising, on the same line, in Column 2. The amount of cash and the value of the merchandise taken by the proprietor, $15, is entered on the tenth line in Column 5.

When a customer fails to pay and there is no longer likelihood of collection, his account is charged off, and the amount is entered in Column 14, Bad Debts. The same amount is entered in Column P, in the Accounts Receivable section of the corresponding Monthly Record Sheet, since in charging off the debt the balance of Accounts Receivable is reduced.

Retail jewelers are occasionally troubled by the separate columns for selling and for buying and management. A rough-and-ready method used in some small stores is to enter in Column 5, Buying, Management, and Office Salaries, the cash that is withdrawn by the proprietor, and also the retail value of the merchandise taken from the store for his own use. The division of the proprietor's salary between these different accounts may be made at the end of the month or at the end of the year.

As is the case with merchants in other trades, many jewelers in computing their own total expenses overlook certain items. Prominent among these are salary of proprietor, rent when the store is owned, and interest on the net investment in the business. It may be asked why these items should be considered as part of the expense of doing business in cases where they do not represent money actually paid out to someone else by the proprietor. For comparative purposes it would be impossible to use the expense figures of a store where a number of salespersons were employed and those of another store where the proprietor did all the selling unless in both cases a charge was made for salaries. Similarly, it would be impossible to compare the expense figures of a store which was rented with those of a store that was owned by the proprietor of the business unless in both cases a rental charge was made. Again, one man may conduct his business largely on borrowed capital, and another may bor-

row no money at all. The expense figures of these two stores are not comparable unless in each case a charge is made for interest, irrespective of whether the capital is owned or borrowed. The merchant should also consider it from this point of view: Suppose that a man has $20,000, owns a building which might be used for store purposes, and is himself capable of commanding a salary of $40 a week. He can if he wishes invest his $20,000 in conservative bonds which will yield him a safe percentage of interest. The building which he owns he can rent as a store for whatever it will bring. He can, furthermore, go to work for some firm and earn $40 a week. Under these circumstances why should this man go into business for himself, invest his $20,000 in stock and fixtures, use the building which he owns for a store, and go to work for himself, unless he can get a larger return than he would get from the interest on the $20,000 invested, the store rented to someone else, and his own salary as an employee of another firm? When he goes into business for himself and invests his own money, he is taking certain risks. The mortality in all retail trades is high. The man is running a chance that he will lose money. Why should he risk his time and money if he is not going to get something more than he could have by playing wholly safe and not taking any risks? In other words the net profit of a business is something more than the salary a man pays himself, the interest on the money that he has invested, and the rent of his own store. Net profit is a reward for undertaking the risks of engaging in business and for putting forth the extra managerial effort that is required of a proprietor. If this were not true there would be little incentive for men to engage in business on their own account. The point is that in order for the merchant to know surely that he is getting his reward for undertaking the risks of business he must charge, as expenses of that business, interest on his own money invested in it, rent for the store which he owns, and a salary for himself.*

Some retail jewelers do considerable repairing. When possible, the receipts from repairing are kept separate from the sales of the rest of the store. These receipts are entered in Column 15, and the amounts paid for labor and supplies used in repairing are entered in Columns 16 and 17.

This paragraph reprinted from *Bulletin No. 27, Operating Expenses in Retail Jewelry Stores in 1920*, Bureau of Business Research, Harvard University, Sept., 1921.

Year ending .... 19 ....

YEARLY RECORD SHEET FOR RETAIL JEWELRY STORES

	January	February	March	April	May	June	July	August	September	October	November	December	Yearly Totals
Cash Sales													
Charge Sales													
Gross Sales													
Returns and Allowances													
Inventory of Merchandise at Beginning of Year													
Cash Purchases of Merchandise													
Credit Purchases of Merchandise													
Total Purchases of Merchandise													
Inward Freight, Express, and Cartage													
Cash Discounts Taken													
Inventory of Merchandise at End of Year													
Wages of Salesforce													
Advertising													
Boxes, Wrappings, and Other Selling Expense													
Delivery Expense													
Buying, Management, and Office Salaries													
Office Supplies, Postage, and Other Management Expense													
Rent													
Heat, Light, and Power													
Taxes (Except on buildings, income, and profits)													
Insurance (Except on buildings)													
Repairs of Store Equipment													
Depreciation of Store Equipment													
Interest on Capital — Borrowed													
Interest on Capital — Owned													
Miscellaneous Expense													
Losses from Bad Debts													
Repairing and Engravings: Receipts													
Salaries and Wages													
Supplies and Other Expense													
Sundry Receipts													
Sundry Expenditures													
Interest and Rentals Earned													
Income and Excess Profits Taxes													
Dividends, Sharings, or Withdrawals													
Balance Accounts Receivable (End of month)													
Balance Accounts Payable (End of month)													
Cash on Hand (End of month)													
Equipment (Net value end of month)													

Form JY. Supplement to Bulletin No. 15, Bureau of Business Research, Harvard University, 1919.

Columns 18 and 19 are for receipts and expenditures not a part of the regular retail business. For example, the cash received from the sale of old gold and silver, as shown on the Daily Record Sheet, and already entered in Column D as a sundry receipt, is also entered on the Monthly Record Sheet, in Column 18. If the retailer owns the building that he occupies, any expenditures such as those for repairs, insurance, and taxes on the building and interest payments on mortgages are entered in Column 19.

The last column, Equipment, shows the purchases and sales of equipment. For example, if a show case is purchased for $100 and paid for in cash, then $100 is entered under Other Cash Paid Out, Column L, and also under Equipment, Column 20. To give another example, if a cash register is purchased on credit, for $175, this amount is entered in Column 20, Equipment, and also in Column T, Other Credit Purchases, on the corresponding Monthly Record Sheet. Thus it becomes an account payable. When this account is paid, the amount, $175, is entered under Other Cash Paid Out, Column L, and also in Column U, Paid On Accounts. But the amount is not entered a second time in the Equipment column. Whenever a piece of equipment is sold, the amount that is received is entered under Equipment, Column 20, and circled to show that it is a receipt. This circled entry is deducted, at the end of the month, from the total of the other entries in the Equipment column. The amount received from the sale of equipment is also entered as Other Cash Received, Column D.

The columns on the Monthly Record Sheet, except Column N, are totaled at the end of each month and the totals transferred to the Yearly Record Sheet.

Yearly Record Sheet

The yearly Record Sheet has one column for each month of the year and a final column for yearly totals. The entries in the January column are obtained from the totals of the columns on the Monthly Record Sheet for January. The entries in the February column are obtained similarly from the Monthly Record Sheet for February.

Cash Sales is the total of Column A on the Monthly Record Sheet.

Charge Sales is the total of Column O in the Monthly Record Sheet.

Gross Sales is the sum of total Cash Sales and total Charge Sales.

Returns and Allowances is the sum of the totals of Column H, Cash Allowances, and Column R, Credit Allowances, on the Monthly Record Sheet.

Inventory of Merchandise at Beginning of Year is the value of stock on hand at the beginning of the business year. This item ordinarily is entered once only for the year, at the beginning of the first month. There is no monthly entry.

In order to make out an accurate Profit and Loss Statement and balance his accounts, it is necessary for the retail jeweler to take stock at least once a year. Only by knowing the net value of the merchandise he has on hand is it possible for him to calculate accurately his profits or his net worth.

If the market price of merchandise is lower at inventory time than the billed cost of the goods on hand, the difference should be subtracted from the gross inventory. The safe rule is, "cost or market, whichever is lower."

Cash Purchases of Merchandise is the total of Column K on the Monthly Record Sheet.

Credit Purchases of Merchandise is the total of Column S on the Monthly Record Sheet, with the amounts circled subtracted.

Total Purchases of Merchandise is the sum of total Cash Purchases of Merchandise and total Credit Purchases of Merchandise.

Inward Freight, Express, and Cartage is the total of Column J on the Monthly Record Sheet.

Cash Discounts Taken is the total of Column V on the Monthly Record Sheet.

Inventory of Merchandise at End of Year has an entry but once a year. There is no monthly entry. This entry is made after inventory is taken at the close of the year.

The monthly entries on the Yearly Record Sheet for items of expense are obtained directly from the Monthly Record Sheet from Items 1—20 with the exception of two or possibly three entries. If the store is owned the amount charged to Rent is entered in the Yearly Total Column without monthly entries.

Fixed Charges and Upkeep Expense

Just as the business is charged with the salary of the proprietor or partners, it is charged with rent when the store is owned, as well as when the store is leased. The amount to be entered here is the amount for which the store could be leased. It is an expense that the business must bear. By including rent in expense whether the store is owned or leased, all businesses are placed upon the same footing for comparison. The amount entered here for rent of owned store is also entered under *Interest and Rentals Earned.* If the store were leased, insurance, taxes, and repairs on the building would be paid by the landlord and covered by the rental charge; hence, when the store is owned, these charges are deducted from *Interest and Rentals Earned.*

Depreciation of Store Equipment has an entry only at the time depreciation is taken, ordinarily once a year.

As the equipment grows older it becomes less valuable. This loss or depreciation in value is one of the operating expenses that must be met out of sales. The probable life of the equipment is carefully estimated and the original cost divided by the number of years that it is expected the equipment will be serviceable.

Interest on Capital-Owned ordinarily has an entry but once a year. The average net investment on which interest is charged here is the average net worth of the business for the year, not including the real estate. It is the sum of the assets (not including real estate) less the sum of the liabilities to outsiders (not including capital stock or surplus of a corporation, or undivided profits).

Repairing and Engraving Receipts, *Salaries and Wages*, and *Supplies and Other Repairing and Engraving Expense* are the totals of Columns 15, 16, and 17 on the Monthly Record Sheet.

Sundry Receipts is the total of Column 18; and *Sundry Expenditures* is the total of Column 19 on the Monthly Record Sheet.

Interest and Rentals Earned also has an entry but once a year. There is no monthly entry. The amount charged to the business annually for Interest on Capital-Owned is entered here, as is also the rent charged to the business on the owned store.

Income and Excess Profits Taxes has entries in the months in which instalments of these taxes are paid.

Dividends, Sharings, or Withdrawals has an entry ordinarily but once a year. There is usually no monthly entry. If the proprietor withdraws from the business, either in value of merchandise taken for personal use or in cash, more than he would have to pay someone else for doing his work, the extra amount is entered here as Proprietor's Withdrawals.

The balances at the bottom of the Yearly Record Sheet show the condition of the business month by month and furnish the information that is necessary for making out the Balance Sheet. The balance of Accounts Receivable is determined at the end of each month in the following manner. The balance of Accounts Receivable at the end of the preceding month, as shown on the Yearly Record Sheet, is added the the Charge Sales for the month, the total of Column O on the Monthly Record Sheet. From the sum of these two items is subtracted the sum of the totals of Columns P and R on the Monthly Record Sheet. The remainder is the balance of Accounts Receivable at the end of the current month.

The balance of Accounts Payable is similarly determined. To the balance of Accounts Payable at the end of the preceding month, as shown on the Yearly Record Sheet, is added the Credit Purchases for the month, the total of Columns S and T on the Monthly Record Sheet. From the sum of these three items is subtracted the sum of the monthly totals of Columns U and V on the Monthly Record Sheet. The remainder is the balance of Accounts Payable at the end of the current month.

The entry for Cash on Hand on the Yearly Record Sheet is the Cash on Hand the last day of the month on the Monthly Record Sheet.

The entry for Equipment on the Yearly Record Sheet is determined in the following manner. The entry for Equipment at the end of the preceding month, as shown on the Yearly Record Sheet, is added to the equipment purchased during the month, the total of Column 20 on the Monthly Record Sheet. From the sum of these two items is subtracted the sum of the circled entries in Column 20, that is, equipment sold during the month. The remainder is the value of equipment on hand at the end of the current month. To determine the entry for equipment in the December column, the amount allowed for Depreciation of Store Equipment is also subtracted. This allowance for depre-

ciation has already been entered above in the Yearly Totals Column.

Profit and Loss Statement

The entries on the Profit and Loss Statement are obtained from the Yearly Totals Column on the Yearly Record Sheet. The item Net Sales is Gross Sales less Returns and Allowances. Purchases of Merchandise at Billed Cost is Total Purchases of Merchandise, shown in the Yearly Totals Column. The method of obtaining the entries for Cost of Merchandise Sold, Gross Profit, Net Profit, and Surplus for the Year is explained in the first part of this bulletin. Sundry Revenue (Net) is the difference between Sundry Receipts and Sundry Expenditures. The rest of the entries are obtained from the Yearly Totals Column on the Yearly Record Sheet.

Interest

The question of whether interest on capital owned, as well as capital borrowed, should be charged in as an expense of operating a retail store, has caused more discussion among accountants and retailers than any other retail accounting problem. Because of the general interest in this subject the following statement made by the Harvard Bureau of Business Research is reproduced:

Statement Regarding Interest Accounts*

In this System of Operating Accounts for Wholesale Grocers *Interest on Capital—Borrowed* and *Interest on Capital—Owned* are charged as items of expense. In the first editions of the Harvard Systems of Accounts for Shoe Retailers and Retail Grocers these two interest items were treated as an application of Net Profit. The change introduced in the accounting systems for shoe wholesalers and wholesale grocers is of large significance. The reasons which have guided the Bureau in its decision are here set forth.

By charging *Interest on Capital—Owned* and *Interest on Capital—Borrowed* as expense it is to be noted that Total Expense is thereby increased and a new definition is given to Net Profit. The final earnings of the business, however, are unaffected, for

*Bureau of Business Research, Harvard University, *Bulletin No. 8, System of Operating Accounts for Wholesale Grocers.* (Second Edition, July, 1917.)

the interest on capital owned is credited to *Interest and Rentals Earned* and is included in *Total Net Gain.* It is to be noted also that interest on capital owned and interest on capital borrowed are charged in the same way. This is necessary in any uniform accounting system which is to be used as a basis for collecting figures from numerous businesses. If one merchant is operating entirely on his own capital and another borrows half the capital employed in his business, the relative interest charges of the two businesses can obviously be compared only by determining the total interest charge for each business. Since there is no serious controversy, however, regarding the method of accounting for interest on capital borrowed, the discussion is here limited to the treatment of interest on capital owned.

Some of the objections to treating interest as an application of net profit were recognized when the retail accounting systems were first drafted, but, for reasons of expediency, that treatment was adopted. In five years' experience, however, the Bureau has encountered difficulties which were not fully anticipated at the outset. These difficulties have largely arisen because of the provision in the retail accounting system that *Interest on Capital—Owned* be charged at the current rate for unincorporated businesses, but that corporations enter their dividend payments in lieu of *Interest on Capital—Owned.* This makes the returns unsatisfactory. A corporation may pay dividends which are in excess of the amount that would be charged upon the capital actually invested if the charge were made in the form of interest rather than as dividends. Or a private concern may incorporate and reduce *Total Interest and Dividends* even if the investment continues the same. This will happen if the dividends paid are less than a fair rate of interest on the actual investment. *Total Interest and Dividends* for such a corporation cannot be compared fairly with the figures of an unincorporated business of the same size.

In the second place, although the final surplus shown on the profit and loss statement for incorporated companies agrees with the balance sheet surplus, the final surplus for unincorporated businesses is not necessarily a balance sheet surplus since all or a part of the interest charged on capital owned may be left in the business and this fact not shown on the Profit and Loss Statement. These practical difficulties in the utilization of

the retail accounting systems have been experienced by the Bureau in summarizing the figures which it has collected from shoe retailers and retail grocers.

In deciding to reconsider the method of treating interest, the Bureau was influenced not only by these practical difficulties, but also by wholesalers and other business men who strongly urged the Bureau to charge interest as an expense. Since reopening the question, it has been discussed not only with reference to the wholesale shoe and grocery businesses, but with reference to other mercantile and manufacturing businesses. The Bureau has obtained the advice and opinions of many business men—manufacturers, wholesalers, retailers, bankers, accountants, and others. The large majority of the business men consulted are in favor of the change. Because of the importance of the question the Bureau has endeavored to give full weight to the arguments on both sides and to look at the question from all angles. Its decision has not been hastily reached. After prolonged and careful consideration it has concluded that the change is advisable not only from the point of view of its wholesale shoe and grocery research, but also on broader grounds of general business policy and public interest.

In discussing this question it is necessary that a clear distinction be made between "expense" and "expenditure." Inasmuch as no outside liability is incurred or expenditure made for proprietor's salary or rent of owned store, some accountants believe that no specific charges should be made for these items as expense. The "net profit" shown by subtracting total expense, exclusive of these items, from gross profit includes compensation for proprietor's time, rent for his store if owned, interest on his investment, and a final net profit as a reward for the risks which he assumes and for his proficiency in managing the business. Under such a method it is left to the proprietor to compute these four items for comparison with the total "net profit." As a matter of practice, many proprietors who follow this plan do not make even a mental computation and very frequently fail to realize that their business is not yielding them the returns to which they are entitled. Those who are opposed to charging the business with proprietor's salary and rent of owned store also consistently oppose the charging of interest on capital owned to expense, but do advise the charging of interest on

capital borrowed to expense. It has become more and more commonly agreed, however, among accountants and other business men that it is advisable for each proprietor to charge his business with a salary equal to what he could earn if employed elsewhere and also to charge as expense the rent on owned place of business equal to the rental for which the premises could be leased. When the Harvard System of Accounts for Shoe Retailers (the Bureau's first uniform accounting system) was drafted, it was decided to charge rent on owned store and proprietor's salary as expense. There is such diversity in the form of proprietorship and in ownership of premises that figures for expense are worthless unless based on a uniform accounting system providing for just such charges as these.

The Bureau has come to the conclusion that every business, whether or not incorporated, should bear a specific charge for interest on the net investment—the amount which the capital could earn if invested elsewhere. No business is truly profitable unless it yields the proprietor not only a salary for his time and rent for his store, if he owns it, but also interest on his investment. The Bureau has decided, furthermore, that it is more practicable from an accounting standpoint to consider this interest charge a part of expense rather than a distribution of profit.

There are objections to the plan of including interest in expense which deserve the most careful consideration. One of the objections is that rates of interest vary between localities. Yet the fact that interest rates vary is not a valid reason for not including interest in the expense statement. The rate of wages varies; rent varies; and one of the objects of this research is to learn the differences in expense for these different items.

Another objection is that the rates of interest also vary between individual concerns. In this connection the proposed plan is criticised on the ground that the interest charge represents an estimate. The determination of the rate of interest to be charged for each business presents some difficulties. The Bureau has finally decided, however, to use the ordinary interest rate on reasonably secure, long-term investments in the locality in which the business is situated. In measuring the results of his business, as has already been pointed out, the business man, if he thinks about the subject at all, computes the amount of interest which

his capital would safely earn, without his personal effort, in some other form of investment. Inquiries of the Bureau make clear that in each locality a definite idea prevails as to what constitutes the rate of interest normally to be expected on long-term investments and therefore influencing the action of the individual investor. The Bureau has decided that it can safely use this commonly expected rate. This interest charge is the minimum amount which the business must earn on the capital invested before it can be considered profitable. The business should earn something more in the way of "profit"; but the subject of profit will be dicussed in greater detail later. That the interest charge is an estimate is not a vital objection. Serious error in the determination of this interest charge is not likely. Furthermore, in all cost accounting some apportioning or prorating of items is necessary, and in most of these instances the possibility of error seems to be fully as great and in some much greater than in the estimate of the interest charge.

Another objection, and one of some weight, is the difficulty of determining the amount of the net investment. Inasmuch as rent is to be charged as a separate item, the value of land and buildings used in the business is not to be included in this principal sum. Good-will, patents, trade-marks, and other intangible assets are excluded as are also outside investments in other businesses or in other property. The items involved in the calculation are:

Assets	Liabilities
Cash on Hand and in Bank	Notes Payable
Notes Receivable	Accounts Payable
Accounts Receivable	Accrued Items
Net Inventory of Merchandise	
Net Inventory of Equipment	
Net Inventory of Supplies	
Prepayments	
Securities	

The valuation of equipment is perhaps the most difficult point in the determination of net investment. A concern which is starting in business will debit its capital account with all equipment purchased at cost, including transportation charges. At each inventory period a proper amount should be debited to

expense as depreciation and credited to this capital account. The balance of the account then represents the net investment in equipment—the original investment plus additions less the amount debited to expense as depreciation. A going concern which has not followed this method should make a valuation of its equipment at the amount which that equipment is actually worth and then depreciate that amount properly at each succeeding inventory period. Insofar as the charging of interest to expense encourages better accounting for actual investment and proper depreciation of equipment, the Bureau believes the change in its plan is highly advisable. The amount of the net investment must be determined in the case of corporations entirely irrespective of the amount of capital stock authorized or issued; the capital stock may be much in excess of the real investment or, on the other hand, the business may be undercapitalized.

A fifth objection is that the inclusion of interest in expense tends to cause a less conservative valuation of inventories, especially in manufacturing plants, and to show as profit available for dividends amounts which have not been realized or even earned. This is a danger which must be guarded against. Valuation of inventories of merchandise and stock is a subject to which the Bureau has already given careful attention,* and it realizes fully that great caution must be exercised in this matter. By whatever method interest is handled, however, the dangers of over-valuation must be guarded against and proper allowances made for depreciation. The inclusion of interest in expense should not make the valuation of inventories less conservative. Most of the bankers with whom the Bureau has conferred state that they have no serious objection to the inclusion of interest in expense so far as the valuation of inventory is concerned, providing, the borrower always follows the same method.

It is stated that the charging of interest to expense tends to encourage unwise plant expenditure by stimulating plant investment which will fail to yield returns at a rate which is commensurate with the risk attending the investment. There is no reason for anticipating this result providing only that the

* Bureau of Business Research, Harvard University, *Bulletin No. 4, Depreciation in the Retail Shoe Business.*

item of profit as distinct from interest is clearly recognized. Unwise investment is more frequently encouraged in everyday business practice by the failure to make a definite charge for interest. Several striking examples of this have been found, and the following statement, quoted from a communication which the Bureau has received from the director of a large shoe manufacturing and wholesaling company, is significant:

> Many large concerns began business as jobbers and had their jobbing business strongly and profitably established before they thought of entering the field of manufacturing. When they did so, it was usually without a clear comprehension of the accounting questions involved, and with very natural inclination to favor the infant industry as much as possible. The jobbing house had never been charged with interest on capital, so the question of charging it to the factory was not considered. Yet the jobbing house usually did the financing, which meant furnishing the factory with plant, equipment, merchandise, and money for payrolls and expenses out of funds most, if not all, of which were borrowed, which resulted in the jobbing house paying out much more interest than it would have done otherwise. The jobbing house also generally took the factory's product as soon as finished and carried it, sometimes thereby incurring additional warehouse charges. Frequently, too, the factory's goods were handled on a closer margin for the jobbing house than would be the case with goods of other make.
>
> The result of all this was a false showing of profits for the factory and a reduction of profits for the jobbing house. I have been engaged for many audits which were inspired solely by a desire of the directors or stockholders to learn who was getting the money which they felt sure the jobbing house must be making, but which failed to show up in the annual statement. The tendency of the factory managers was to become over-satisfied with their ability as profit producers; the decadence of the jobbing houses became a by-word, and many concerns were actually wrecked by the misunderstandings and dissentions engendered by this surprising ignorance of facts which should have been apparent to the most casual observer.

The objections raised by those who are opposed to the inclusion of interest in the expense statement are founded upon a conception of net profit which makes "net profit" a residual item including both interest and profit. The Bureau believes that from all points of view it is desirable that a distinction be made between interest and profit. It is granted by those who consider interest and net profit as synonymous that the proprietor of a business rightfully expects the business to yield him something more than the salary which he could earn if employed by another,

rent on his realty, and interest on his capital. It is this additional profit which induces him to engage in business on his own account. It compensates him for his own proficiency in organizing and managing the business and for the extra risks which he incurs as proprietor and investor. The "profit" earned in one year counterbalances the loss of another year; and, considering the industry as a whole, the "profit" earned by one business counterbalances losses incurred by others of the same sort.

This item of "profit" is purely residual; it is quite distinct from interest; and it is to be justified on entirely different grounds. From the point of view of the individual business man full recognition of this distinction between interest and "profit" is desirable, in order that he may more fairly judge the results of his efforts. From the point of view of public advantage it is unquestionably desirable that enterpreneur ability should be stimulated and encouraged, and that the justification of "profit" over and above interest should be recognized. It is a mistaken notion that high profit is necessarily or even commonly the result of extortion. Good quality and service to the public and good wages to employees are not in the least inconsistent with a high "net profit" produced by exceptionally able management. The public and employees are, in fact, more likely to suffer under poor management and small profit than under good management and large profit. The inclusion of interest in expense seems to the Bureau to bring out the fact that capital is entitled to definite returns and that each business should yield a profit over and above interest, rent, and salaries. To face the question of profit squarely instead of in confusion with interest seems likely in the long run to bring about healthier business conditions and to promote social harmony.

SCHEDULE FOR DEPARTMENT STORES

The following schedule for department stores, with explanation of the schedule, was mailed from the Harvard Bureau of Business Research to department stores throughout the country.

No..........

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BUREAU OF BUSINESS RESEARCH

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
CAMBRIDGE, MASSACHUSETTS

SCHEDULE FOR DEPARTMENT STORES

PROFIT AND LOSS STATEMENT, for year ending ____________ 19__

MERCHANDISE STATEMENT

GROSS SALES ....
RETURNS AND ALLOWANCES TO CUSTOMERS
Net Sales ....
NET INVENTORY OF MERCHANDISE AT BEGINNING OF YEAR ....
NET PURCHASES OF MERCHANDISE ....
INWARD FREIGHT, EXPRESS, AND CARTAGE ..
Gross Cost of Merchandise Handled ....
NET INVENTORY OF MERCHANDISE AT END OF YEAR ....
Gross Cost of Merchandise Sold ....
CASH DISCOUNTS RECEIVED ON PURCHASES OF MERCHANDISE ....
Net Cost of Merchandise Sold ....
ALTERATION COSTS ....
Net Cost of Sales ....
Gross Profit ....

EXPENSE STATEMENT

	Administrative and General	Occupancy	Publicity	Buying	Selling: Inside Selling	Selling: Delivery	TOTAL
SALARIES AND WAGES	EXECUTIVE OTHER ADMIN. OFFICE			BUYING RECEIVING, MARKING, AND STOCK-ROOM	DIRECT SELLING INDIRECT SELLING		
RENTALS					XXXXXXX		
ADVERTISING	XXXXXXX	XXXXXXXX		XXXXXXX	XXXXXXX	XXXXXXX	
[illegible]			XXXXXXXX		XXXXXXX		
INTEREST	INTEREST ON CAPITAL-BORROWED INTEREST ON CAPITAL-OWNED		XXXXXXXX	XXXXXXX	XXXXXXX		
SUPPLIES							
SERVICE PURCHASED (HEAT, LIGHT, POWER, DELIVERY)	XXXXXXX		XXXXXXXX	XXXXXXX	XXXXXXX		
UNCLASSIFIED							
TRAVELLING							
COMMUNICATION							
REPAIRS				XXXXXXX	XXXXXXX		
INSURANCE					XXXXXXX		
DEPRECIATION	LOSSES FROM BAD DEBTS OTHER DEPRECIATION			XXXXXXX	XXXXXXX		
PROFESSIONAL SERVICES					XXXXXXX	XXXXXXX	
TOTAL					TOTAL INSIDE SELLING	TOTAL DELIVERY TOTAL INSIDE SELLING TOTAL SELLING	

NET GAIN STATEMENT

Gross Profit ....
Total Expense ....
Net Profit (or Loss) ....
SUNDRY REVENUE (NET) ....
INTEREST AND RENTALS EARNED ....
Total Net Gain (or Loss) ....
PROVISION FOR INCOME AND EXCESS PROFITS TAXES ....
DIVIDENDS, SHARINGS, OR WITHDRAWALS ....
Surplus (or Deficit) for the Year ....

FINANCIAL STATEMENT

Date ______

Assets

CURRENT

- Cash on Hand and in Bank ______
- Notes Receivable (Customers) ______
- Accounts Receivable (Customers) ______
- Net Inventory of Merchandise ______
- United States Securities ______

OTHER ASSETS

- Accrued Interest ______
- Other Accrued Items ______
- Investments ______

DEFERRED CHARGES

- Prepayments ______
- Net Inventory of Supplies ______

PERMANENT

- Real Estate ______
- Leasehold ______
- Net Inventory of Equipment ______

Liabilities

CURRENT

- Notes Payable (Merchandise) ______
- Notes Payable (Money borrowed) ______
- Accounts Payable (Merchandise) ______
- Accounts Payable — Sundry ______
- Accrued Items ______

OTHER LIABILITIES

- Real Estate Mortgage Notes ______

RESERVES

- For Federal Income and Excess Profits Taxes ______
- For Possible Losses ______

CAPITAL

- Preferred — Issued ______
- Common — Issued ______

PROFIT AND LOSS — SURPLUS

- Undivided Surplus ______
- Undivided Profits ______

QUESTIONS

1. Do you have any leased sections? ______ What are they? ______

   Net sales in leased sections in 1920 $______ Total expenses of leased sections in 1920 $______ Are sales in leased sections included in your figure for Net Sales? ______ Are expenses of leased sections included in your Expense Statement? ______ If so, under what items do they appear? ______

2. Do you operate a restaurant? ______; personal service departments? ______ Net receipts in restaurant in 1920 $______; in personal service departments $______ Total expenses of restaurant in 1920 $______; of personal service departments $______ Are receipts in restaurant or personal service departments included in your figure for Net Sales? ______ Are expenses of restaurant or personal service departments included in your Expense Statement? ______ If so, under what items do they appear? ______

3. Is the entry on this Schedule for *Cash Discounts Received on Purchases of Merchandise* the amount actually received? ______; or the amount charged to departments? ______
4. Are your inventories taken at cost only? ______; at both cost and retail? ______; or at retail only? ______
5. What percentage of the merchandise sold is delivered? ______ %. What percentage of your deliveries are made by your own equipment? ______ %; by parcel post? ______ %; by a cooperative delivery company? ______ %; by special messenger? ______ %; by other means? ______ %.
6. Sales in 1920 in the following departments: mail order $______; grocery $______; furniture $______; dry goods $______ ready-to-wear $______; bargain basement $______ (Indicate leased department by inserting 'L' after amount of sales.)
7. Do the managers of departments also act as buyers? ______ Under what items are their salaries entered on this Schedule? ______ Do you have a merchandise manager? ______ Under what item is his salary entered on this Schedule? ______
8. Is your business owned by one proprietor? ______; by a partnership? ______; by a corporation? ______ Number of active partners, including proprietor ______ Total amount charged as expense for salary of proprietor or active partners $______ If salary for proprietor or active partners has not been included in expenses, what is a fair charge for these services? $______
9. Amount of "salaries" paid to inactive partners $______ Under what items is this amount entered on this Schedule? ______
10. Do you rent your store buildings? ______ Annual rent $______ If you own them, for what amount could they be rented? $______ Amount of taxes paid on leased real estate used for operations $______
11. Total amount paid as interest on capital borrowed in 1920 $______; average net worth of the business, exclusive of real estate, for 1920 $______; local rate of interest on reasonably secure long-time investments ______ %.
12. Are you using the National Retail Dry Goods Association's classification of accounts published in 1917? ______.

[OVER]

Bureau of Business Research
Harvard University
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
CAMBRIDGE, MASSACHUSETTS
May, 1921

Explanation of Schedule for Department Stores

This schedule has been prepared as a basis for obtaining comparable figures on the cost of doing business in department stores. The study has been undertaken in cooperation with the National Retail Dry Goods Association. The form used is in accordance with the tentative plan of the Standardization Committee of the Controllers' Congress. The items are explained in the following pages in the order in which they appear on the Schedule.

MERCHANDISE STATEMENT

Gross Sales.

Gross sales of merchandise in owned and leased sections.

Gross receipts from restaurant and personal service departments also may be included here.

Exclude from this item all amounts collected from customers for excise and luxury taxes.

Returns and Allowances to Customers.

Merchandise returned by customers and allowances granted to customers.

Net Sales.

Gross Sales less *Returns and Allowances to Customers.*

Net Sales represent the real volume of business done; this figure serves as a common basis of comparison between department stores; consequently, it is taken as 100% in figuring percentages of profit and expense.

Net Inventory of Merchandise at Beginning of Year.

Net cost value of merchandise on hand at the beginning of the fiscal year. This amount is gross inventory less an allowance for cash discounts actually taken and less whatever allowance is made for depreciation of merchandise. The common accounting practice is to take inventory at cost or market, whichever is lower.

Do not include in this item inventory of fixtures, or of office and delivery equipment.

Net Purchases of Merchandise.

Merchandise purchased less returns and allowances received from manufacturers or wholesalers, and less trade discounts.

Duties and insurance on imported purchases.

Cost of all goods obtained by merchandise departments from manufacturing departments.

Inward Freight, Express, and Cartage.

All charges for transportation of merchandise from manufacturer or wholesaler to store or warehouse.

Gross Cost of Merchandise Handled.

The sum of *Net Inventory of Merchandise at Beginning of Year*, *Net Purchases of Merchandise*, and *Inward Freight, Express, and Cartage.*

Net Inventory of Merchandise at End of Year.

Net cost value of merchandise on hand at the end of the fiscal year.

See *Net Inventory of Merchandise at Beginning of Year.*

Gross Cost of Merchandise Sold.

Gross Cost of Merchandise Handled less *Net Inventory of Merchandise at End of Year.*

Cash Discounts Received on Purchases of Merchandise.

Cash discounts received on merchandise purchased.

Net Cost of Merchandise Sold.

Gross Cost of Merchandise Sold less *Cash Discounts Received on Purchases of Merchandise.*

Alteration Costs.

Cost of alterations, including labor, supplies, and all expenses, and amounts paid for this service when purchased outside the store.

Net Cost of Sales.

Net Cost of Merchandise Sold plus *Alteration Costs.*

Gross Profit.

Net Sales less *Net Cost of Sales.*

EXPENSE STATEMENT

SALARIES AND WAGES

Administrative and General.

Executive.

Salaries of proprietor, partners, or executives engaged in the general administration of the business.

Other Administrative.

Salaries, wages, and bonuses of managers and employees of employment department, educational department, welfare department, complaint adjustment bureau, and other general store service bureaus; salary of editor of house organ; wages of telephone operators.

Office.

Salaries, wages, and bonuses of office force, including bookkeepers, stenographers, typists; also employees in accounting and in credit and collection departments.

OCCUPANCY.

Salaries and wages of building and warehouse superintendents and staff, engineers and power plant employees, electricians, carpenters, painters, elevator operators, store detectives, watchmen, porters, maids, attendants, and cleaners.

PUBLICITY.

Salaries of advertising manager and assistants, salaries and wages of advertising staff, both regular and extra; salaries and wages of decorators, window trimmers, artists, copywriters, and proofreaders.

BUYING.

Buying.

Salaries of buyers and assistants and merchandise managers and assistants proportionate to time spent by them in buying; bonuses to buying force; salaries and wages of employees in outside and foreign buying offices.

Receiving, Marking, and Stockroom.

Salaries and wages of persons employed in receiving and marking merchandise; salaries and wages of stockroom employees.

SELLING

Inside Selling

Direct Selling

Salaries, commissions, and wages paid to regular and extra sales force, and to stock clerks in the selling departments.

Indirect Selling.

Salaries, commissions, and wages paid to sales managers and assistants, floor managers and assistants, buyers and assistants, proportionate to time spent in selling. Wages of cashiers, examiners, and bundle girls. Salaries and wages of mail and telephone-order department managers and assistants.

Delivery

Salaries and wages of delivery and shipping-room superintendent and employees, including messengers, package collectors, and

packers. Wages of drivers, helpers, mechanics, and their assistants, including stable and garage employees.

RENTALS

In order to place all businesses on the same footing for comparison, rent is included in expense on this Schedule whether the buildings used for operations are owned or leased. If the buildings are owned, the amount entered for rent is an estimate of the amount for which the buildings could be leased. One method of estimating the proper amount to be charged as rent, when the buildings are owned, is to compute a fair charge for interest on the investment in land and buildings used in the operation of the business and to add to this amount the insurance, taxes, repairs, and depreciation on this real estate. The amount entered here for rent of owned buildings also appears under *Interest and Rentals Earned.* If the buildings were leased, insurance, taxes, repairs, depreciation, and other expenses on the real estate frequently would be paid by the landlord and covered by the rental charge; hence, when the buildings are owned, these charges are deducted from the amount charged as rent of owned buildings before the entry is made under *Interest and Rentals Earned;* they are not entered on this Schedule under expenses. If buildings are leased and the taxes and other upkeep expenses are paid by the lessor, such taxes are added to the rental charge and not entered elsewhere. If a leasehold has been purchased, a yearly charge for amortisation is entered as rental expense.

Administrative and General.

If a rental charge is made for space used for administrative and general offices, the amount may be entered here.

Occupancy.

Balance of rent of buildings used for operations, whether owned or leased, after deducting rental charged to Administrative and General, Publicity, Buying, and Delivery.

Publicity.

Rental charged for store windows.

Buying.

Rent of outside and foreign buying offices.

Selling

Delivery

Rental charged for delivery and shipping rooms. Rent of garage and stable, whether owned or leased.

ADVERTISING

Publicity.

All space purchased in newspapers, periodicals, programs, street cars, catalogs, and circulars; billboards, electric signs, and novelties.

TAXES

Administrative and General.

City, county, and state taxes on merchandise. Taxes on volume of business.

Do not include in this item: amounts collected from customers for excise or luxury taxes; taxes on income and excess profits, which are entered under *Provision for Income and Excess Profits Taxes;* or taxes on real estate.

Occupancy.

Taxes on store and warehouse fixtures and equipment, including heating, lighting, and power equipment.

Buying.

Taxes on outside and foreign buying offices.

Selling.

Delivery

Taxes and licenses on delivery equipment.

INTEREST

Owing to different methods of financing business, significant figures for comparison can be obtained only by including interest both on borrowed money and on net investment as an operating expense. The net investment on which interest is charged is exclusive of real estate, because the charge for the use of the real estate is made to *Rent.*

The average net investment on which interest on capital owned is determined is the average net worth of the business. It is the sum of the assets (not including real estate), less the sum of the liabilities to outsiders (not including capital stock or surplus or undivided profits). The assets include cash, inventory of merchandise on hand, equipment at depreciated value, notes and accounts receivable, and prepayments, such as prepaid insurance. Good-will is not included unless purchased outright. The liabilities include notes and accounts payable, and accrued items, such as unpaid taxes (not mortgages on real estate). The rate of interest to be used in calculating the amount to be included under Interest on Capital—Owned is the ordinary rate on long time, reasonably secure investments in the locality in which the business is situated.

Administrative and General.

Interest on Capital—Borrowed

Interest paid on borrowed money, and interest on notes and accounts payable. If interest is paid on borrowed money that is chargeable to Occupancy or to Delivery, the amounts are to be deducted before the entry is made here.

Interest on Capital—Owned.

Interest on net worth of the business exclusive of real estate after deducting interest charged to Occupancy and to Delivery.

Interest received on bank balances and on customers' accounts is deducted before the entry for Interest on Capital—Owned is made on this Schedule.

Do not include in this item cash discounts received on purchases of merchandise.

OCCUPANCY.

Interest on borrowed capital and on net investment in equipment and fixtures in store and warehouse.

SELLING.

Delivery.

Interest on borrowed capital and on net investment in equipment and fixtures used for delivery.

SUPPLIES

ADMINISTRATIVE AND GENERAL.

Stationery, accounting books and forms, and other office supplies. Miscellaneous supplies for welfare, educational, and other administrative departments.

OCCUPANCY.

Uniforms; laundry, cleaning, and housekeeping supplies; water and fuel; engine and boiler supplies; carpenters', painters', and other occupancy supplies.

PUBLICITY.

Drawings; electrotypes; decorating, sign writers', and other publicity supplies.

BUYING.

Receiving, marking, and stockroom tags, tickets, labels, and stationery. Other buying supplies.

SELLING.

Inside Selling.

Sales books, boxes, wrapping paper, and twine. Other inside selling supplies.

Delivery.

Wrapping and packing supplies; uniforms; gasoline, oil, grease, tires, and tubes; feed and other delivery supplies.

SERVICE PURCHASED
(Heat, Light, Power, and Delivery)

OCCUPANCY.

Amounts paid for heat, light, and power purchased.

SELLING.

Delivery.

Delivery service purchased

UNCLASSIFIED

ADMINISTRATIVE AND GENERAL.

Membership dues, entertainment, contributions, gifts, and other miscellaneous administrative and general expenses.

OCCUPANCY.

Inspection fees and other miscellaneous occupancy expenses.

PUBLICITY.

Miscellaneous publicity expenses.

BUYING.

Miscellaneous buying expenses.

SELLING.

Inside Selling.

Trading stamps and other miscellaneous selling expenses.

Delivery.

Damage and loss on packages, and other miscellaneous delivery expenses.

TRAVELING

ADMINISTRATIVE AND GENERAL.

Traveling expenses of executives, and of managers of welfare, educational, and other administrative departments.

OCCUPANCY.

Traveling expenses of building superintendent and engineers. Other traveling expenses incurred for and chargeable to occupancy.

PUBLICITY.

Traveling expenses of advertising force. Other traveling expenses incurred for and chargeable to publicity.

BUYING.

Traveling expenses of buyers, both domestic and foreign, and of merchandise managers.

SELLING

Inside Selling.

Traveling expenses of sales managers and their assistants. Other traveling expenses incurred for and chargeable to selling.

Delivery.

Traveling expenses of shipping- and delivery-room superintendents. Other traveling expenses incurred for and chargeable to delivery.

COMMUNICATION

ADMINISTRATIVE AND GENERAL.

Postage stamps, stamped envelops, postal cards; telephone, telegraph, and cable charges. Other administrative and general communication.

OCCUPANCY.

Telephone, telegraph, and other occupancy communication.

PUBLICITY.

Postage, telephone, telegraph, and other publicity communication.

BUYING.

Postage, telephone, telegraph, cable, and other buying communication.

SELLING.

Inside Selling.

Telephone, telegraph, and other selling communication.

Delivery.

Telephone, telegraph, and other delivery communication.

REPAIRS

ADMINISTRATIVE AND GENERAL.

Repairs of office equipment.

OCCUPANCY.

Repairs of heating, lighting, and power equipment, and of store and warehouse occupancy equipment and fixtures.

PUBLICITY.

Repairs of publicity equipment and fixtures.

SELLING.

Delivery

Repairs of delivery equipment and fixtures.

INSURANCE

Administrative and General.

Fire insurance on merchandise. Employers' liability insurance, casualty insurance, surety bonds, burglary insurance, and other insurance not elsewhere provided for.

Occupancy.

Insurance on store and warehouse equipment and fixtures, including boiler, elevator, and other occupancy insurance.

Publicity.

Plate glass and other publicity insurance.

Buying.

Outside and foreign buying office equipment insurance. Other buying insurance.

Selling.

Delivery.

Fire, theft, accident, liability, and other insurance on delivery equipment. Surety bonds.

DEPRECIATION

Administrative and General.

Losses from Bad Debts.

Reserves for and losses from debts owed by customers.

Other Depreciation.

Fair estimate of loss in value of office equipment.

Occupancy.

Fair estimate of loss in value of heating, lighting, and power equipment, and store and warehouse occupancy equipment and fixtures.

Publicity.

Fair estimate of loss in value of publicity equipment and fixtures.

Selling

Delivery

Fair estimate of loss in value of delivery equipment and fixtures.

PROFESSIONAL SERVICES

Administrative and General.

Professional legal and accounting services purchased; credit information and collection costs; miscellaneous professional service purchased.

Occupancy.

Professional appraisal and protective services purchased. Other occupancy professional service purchased.

Publicity.

Professional advertising service purchased.

Buying.

Professional buying service purchased.

NET GAIN STATEMENT

Gross Profit.

This item is the same as *Gross Profit* on the Merchandise Statement.

Total Expense.

This item is the sum of all the expenses shown on the Expense Statement

Net Profit (or Loss).

Gross Profit less *Total Expense.*

Sundry Revenue (Net).

Incidental revenue (net) not accounted for in Merchandise Statement.

Profit or loss in manufacturing departments, if any, is shown.

Incidental losses not a part of merchandise operations are deducted before the entry is made for this item

Interest and Rentals Earned.

Interest on net investment, exclusive of real estate. This includes interest on capital owned, entered under Administrative and General, Occupancy, and Delivery

Rent on owned real estate, including store buildings, warehouse, stable, and garage. Before an entry is made for rentals earned, deduct insurance, taxes, repairs, and depreciation on owned real estate, and interest paid on mortgages on owned real estate.

Total Net Gain (or Loss).

Sum of *Net Profit* (*or Loss*) and the balances of *Sundry Revenue* (*Net*) and of *Interest and Rentals Earned.*

Provision for Income and Excess Profits Taxes.

Excess profits taxes and federal and state taxes levied on the net income of the business for the period covered by this Schedule.

Dividends, Sharings, or Withdrawals.

Dividends declared, or partners' sharings awarded (not including salaries), or proprietor's withdrawals (not including salary). This item includes any "salaries" paid to inactive partners.

Surplus (or Deficit) for the Year.

Total Net Gain (*or Loss*) *less Provision for Income and Excess Profits Taxes* and *Dividends, Sharings, or Withdrawals.*

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